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Corporate Governance and the Board of Directors in Saudi-listed Companies

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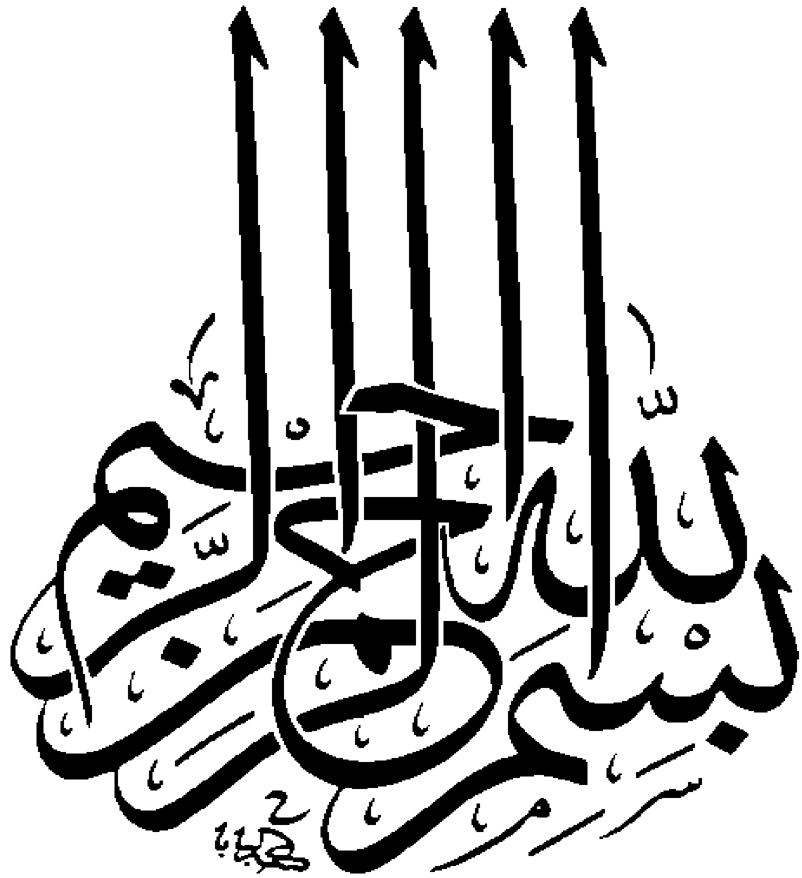

In the name of Allah the most gracious and most merciful

Dedication

I dedicate this work to my mother and father (Jamelah and Ali),
my wife Tahani, my children Mohammed Faris and Leena, my brothers and sisters. Thank you all for your love and support.

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Acronyms

Annual General Meeting	AGM
Board Member	BM
Board Secretary	BS
Chief Executive Officer	CEO
Capital Market Authority	CMA
Electronic Share and Information System	ESIS
The UK's Financial Reporting Council	FRC
Gulf Cooperation Council	GCC
International Monetary Fund	IMF
International Monetary Fund	IMF
Independent Non-Executive Directors	INEDs
Initial Public Offering	IPO
Kingdom of Saudi Arabia	KSA
Kruskal-Wallis Test	KW
The Middle East and North Africa	MENA
Saudi Minister of Economy And Planning	MEP
Mann-Whitney Test	MW
Non-Executive Directors	NEDs
New Institutional Economics	NIE
New Institutional Sociology	NIS
Organization for Economic Co-Operative And Development	OECD
Old Institutional Economics	OIE
Saudi Arabian Monetary Agency	SAMA
US Secretary and Exchange Commission	SEC
The Saudi Organisation for Certified Public Accountants	SOCPA
Statistical Analyses in Social Science	SPSS
Saudi Riyals	SR
The Saudi Stock Exchange Market	TADAWUL
The World Trade Organisation	WTO

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Declaration

I hereby declare that I am the author of this thesis: that the work of which this thesis is a record has been done by myself, and that it has not previously been accepted for a higher degree.

Signed…………..…………… Date……………..………….

Maree Ali Al-amri

Certificate

We certify that Mr. Maree Ali Al-amri has worked the equivalent of nine terms on this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Signed………………………... Date……………..……….

Professor Christine Helliar

Signed………………………... Date……………..……….

Professor Bruce Burton

Signed………………………... Date……………..……….

Dr. Vicky Lambert

Abstract

Corporate Governance has been a focus of attention in many countries around the world. A renaissance in governance issues has led global convergence to codes of good governance and practices. This study examines the adoption of a relatively new corporate governance code for KSA listed companies and its adaptation in an institutional setting where family and government ownership prevails. The study focuses on the governance mechanisms adopted by companies and the influences on such practices, and identifies those that are not being practiced and the reasons behind such resistance using both interviews and a questionnaire survey. The results indicate that coercive pressures has resulted in the diffusion of some governance practices, but normative isomorphic tendencies arising from sociocultural factors have prevented governance practices from being adopted effectively leading companies to decouple material practice for merely ceremonial practices. The prevailing institutional logics within government and family owned companies leads to heterogeneity among listed companies regarding their governance structures and practices. The findings of this thesis show that policy makers should consider the network of actors that determine practice in order to improve the governance framework.

Chapter one: Introduction

1.1 Preamble

The series of global corporate collapses of the last two decades that were attributed to failures in corporate governance,[1] along with the financial crisis of 2008, led to a renaissance in corporate governance issues in general, but particularly on the role of the board of directors (Adams et al., 2008). Specifically, ‘Good’ corporate governance has been suggested as leading directly to greater efficiency as a result of stronger relationships with stakeholders, (World Bank, 2009). The renewed worldwide interest in corporate governance has led a number of world organisations, including the OECD, IMF and World Bank to provide guidelines on corporate governance principles (OECD, 2004) that supplement the many national governance codes and guidelines that have also emerged (Davis and Thompson, 1994; Shleifer and Vishny, 1997; Dahya et al., 2002).

The global convergence of corporate governance codes and practices has led to neglect of the need for national and regional context to be considered. Institutional environments vary significantly both across developing countries in particular, and from those in developed nations (Judge, 2009). Researchers have recently started to recognise that corporate governance is influenced by the embedded institutional environments within a country’s context, and that such institutional influences differ because of differing national and global institutional pressures (Turnbull 1997; Aoki, 2001; Aguilera and Jackson, 2010; Adams et al., 2010; Wanyama et al., 2009). Thus, the institutional setting may matter, but the question of how they influence specific governance systems and practices remains an underdeveloped research area (Filatotchev and Boyd, 2009; Aguilera and Jackson, 2010).

[1] Enron and WorldCom in the United States and Parmelant and Maxwell in Europe are examples of such collapses

In this context, the present thesis is concerned with corporate governance practices in the Kingdom of Saudi Arabia (KSA), particularly those related to the boards of directors of KSA-listed companies. The organisational field of Saudi-listed companies has been targeted for the current study as KSA is regarded as hugely influential within the Middle East and around the world, being one of the largest oil producers in the world with vast influence on the global pricing of oil and oil products (Niblock, 2013). The Saudi market is the largest in Arabia and promoting better governance will help develop further the capital market (World Bank, 2009). In fact, an assessment of governance practices carried out by the World Bank in 2008 concluded that governance practices of Saudi listed companies were weak and the introduction of the Saudi corporate governance code in 2006 was a measure designed to increase investors' confidence after the market crashed in February of that year (Falgi, 2009). By focusing on Saudi Arabia, an Arab and Middle Eastern country, where the culture is very different from Western nations, the study intended to contribute to our understanding of corporate governance in a rarely-examined context[2].

1.2 Research Objective

Previous calls within the governance literature encourage research addressing the issue of environment norms and institutional influences on corporate practices (Filatotchev and Boyd, 2009; Aguilera and Jackson, 2010). From this perspective, the main objective of this thesis is to examine the factors that influence the corporate governance practices of KSA-listed companies.

[2] Interested parties in Saudi companies such as foreign investors may also find that their communication and engagement with Saudi companies are facilitated if there is an understanding regarding the current issues and challenges facing the implementation of corporate governance.

Underpinning this broad motivation is the specific research question of the extent to which institutions factors influence the corporate governance practices of KSA listed companies.

In order to achieve this aim, the perspectives of regulators and board members have been sought in order to understand the practices of Saudi boards and the factors influencing such practices to emerge. Forty-three interviews were conducted with such individuals, and a questionnaire survey distributed amongst a sample of executives of KSA-listed companies. These research methods allow the study's institutional theory perspective to inform the enquiry directly.

1.3 Motivation and significance

Most of the focus of corporate governance literature has been on developed countries, although more attention has been placed on developing countries in recent years (Brennan and Solomon, 2008; Wanyama et al. 2009; Solomon, 2010). A review of the literature raises the issue of the scarcity of research on corporate governance in developing countries, in Gulf countries and especially in Saudi Arabia, despite calls for more work in this area (Al-Harkan, 2005; Al-Huseen, 2009; Falgi, 2009). Research on corporate governance has been predominantly influenced by the work of Berle and Means (1932) which emphasises the conflicts of interest arising from the separation of ownership and control; this has led to various governance mechanisms (i.e. boards of directors, executive compensation, board committees etc.) being introduced in order to ensure that corporate managers pursue shareholder's best interests. This pattern has led corporate governance research in a direction dictated by agency theory, although its applicability to corporate governance research in non-Anglo Saxon contexts has been called into question (Aguilera and Jackson, 2003; Lubatkin et al., 2005; Heracleous and Lan, 2012). Examining corporate governance from a different institutional perspective in the context of an emerging economy such as Saudi Arabia is a novel research avenue, but given the growth of the developing world economy, an important one.

This study contributes to reducing this gap by investigating corporate governance in Saudi Arabia and the factors influencing its practice, using an institutional theory perspective. A key stimulus for the research was a desire to determine the nature of corporate governance practices in modern-day KSA and how the introduction of the Saudi corporate governance code in 2006 influenced board practices. A further motivation for the study is investigation of whether governmental policy on corporate governance can be informed in a meaningful way by studying practice in the Middle East in a context specific manner; the previous literature has questioned how the region's countries adopt corporate governance practices based on Anglo-Saxon governance models (Robertson et al., 2001; Mellahi et al., 2011).

1.4 Structure of the Thesis

The reminder of the thesis is structured as follows. Chapter Two highlights the historical background of the Arabian Peninsula leading up to the establishment of the KSA in 1932. The chapter describes the nation's corporate culture including the legal and market structure, as well as discussing the recent corporate governance code in an effort to inform the reader about the framework of corporate governance in which KSA companies operate.

The relevant literature is reviewed in Chapter Three. The chapter discusses the importance of corporate governance by first looking at its diffusion worldwide, with emphasis on the UKs experience as the first country to introduce a corporate governance code. The chapter also considers the main characteristics of governance models and reviews previous studies in developed- and developing-countries, before focusing more specifically on boards of directors regarding their roles, responsibilities and structures. The final section of the chapter discusses previous corporate governance studies within the Saudi context.

Chapter Four discusses the theoretical frameworks typically adopted in corporate governance studies before describing the institutional theory which provides the framework of this research. The various levels of analyses that institutional theory offers is outlined. The chapter then explains why institutional theory was adopted in the current study.

The specific methodology and methods underpinning this study are outlined in Chapter Five. Burrell and Morgan's (1979) philosophical assumptions concerning the nature of science and the nature of society are presented in this chapter, and the four paradigms envisioned by Burrell and Morgan are discussed. After viewing alternatives to Burrell and Morgan's framework, the chapter then justifies the adopted philosophical stance which led the researcher to select the interpretive paradigm. The chapter then discusses in detail the two research methods used in collecting the empirical data in order to be able to answer the research questions that form the basis of this thesis. The use of both semi-structured interviews and questionnaires form a desirable mix whereby the limitations of one method overcome the strengths of another.

The findings from the interviews are reported and analysed in Chapter Six. The purpose of the interviews is to gain insight and perspective on the views of regulators, board members, executive directors and board secretaries on corporate governance practices among KSA-listed companies in the aftermath of the issuing of the nation's first governance code. Chapter Seven then provides the questionnaire results, in an attempt to complement the interview findings via a larger sample and formal statistical analysis.

Finally, Chapter Eight provides an overall summary of the thesis, and draws out the key conclusions, main findings and contributions of the study. The limitations of the work are highlighted as are policy implications, suggestions on ways to improve corporate governance in KSA, and avenues for future research in the area.

Chapter Two: Saudi Background

2.1 Introduction

The previous chapter gave an introduction to this thesis. The main purpose of the present chapter is to provide an overview on Saudi Arabia as a background to the present study. The chapter starts with a general historical background to the Arabian region in Section 2.2, before Section 2.3 gives an overview of the development of modern-day Saudi Arabia. Section 2.4 then discusses the main legal characteristics in the country, including the 2006 corporate governance code, before Section 2.5 summarises and concludes.

2.2 History Background of the Arabian Region (the Birth of Islam)

Saudi Arabia is the heart of the Islamic world as all Muslims travel to the holy mosque in the city of Makkah Almukarramah to perform their pilgrimage (El Mallakh, 1982). Thus it is important to provide some background about the Arabian Peninsula and touch upon some of the historical features that helped to shape the institutional environment in the region.

The pre-Islamic era was called *Jahiliyah* (the time of ignorance) when wars arose between tribes for often insignificant reasons[3], the infanticide of females was common and paganism, the worshiping of idols occurred. In the year 613 the prophet Mohammed (PBUH)[4] started to preach to his people in Makkah about Islam, introducing the concept that "there is only one God and that only God is to be worshiped". The idea faced rejection by many of his relatives and clan because Mohammed's preaching condemned

[3] A war named 'Albasoos' lasted 40 years between two rival tribes over a camel dispute in the year 495ad.
[4] Muslims are encouraged to say the phrase 'Peace be upon him' when the Prophet Mohammed is mentioned.

the pagan rituals that brought pilgrims to Makkah to worship the idols of that time along with economic resources.

Islam therefore threatened the economic interests of the leaders in Makkah (Wynbrandt, 2010). Mohammed's preaching did not attract many followers at the beginning, with only his wife and a few of his family members following his teachings, but soon more started to join, most of whom were very poor and/or were slaves at the time. Mohammed also attracted a few of the leading figures in society (Wynbrandt, 2010), but became a threat to Makkah's leaders who ordered his assassination. Mohammed was unable to stay in Makkah, and in the year 622 he travelled (hijjrah[5]) to Medinah and formed the first Islamic state. The spread of Islam began to expand beyond the Arab world as Islam preached equality, recommended hard work, recognised that there was only one God and emphasised honesty, loyalty and solidarity (Ali, 1995). The Arabic culture has two key embedded values: Islam and Bedouin tribalism (Al-Ghathami, 2009). Islamic teachings ruled out the habits of tribalism which discriminated people on the basis of clan and race, replacing them with the notions of equality among people and differentiation on the basis of 'good' virtues (Al-Ghathami, 2009). As the Holy Quran states:

> "O mankind, indeed we have created you from male and female and made you peoples and tribes that you may know one another. Indeed, the most noble of you in the sight of Allah is the most righteous of you. Indeed, Allah is Knowing and Acquainted" (Alhujurat, verse13)

After the death of the prophet in 632, the Arab people selected among them a successor (Calipha) to be their leader (Sharifa, 2011). The first successor was 'Abu baker' who ruled for two years, and after his death three others succeeded him; Omar, Ottoman and

[5] The travel of the phrophet from Makkah to Medinah is recognized as the hijjrah which is recognised as the start of the Muslim calendar.

Ali. The time of these four is called the era of Al-Rashideen (The Rightly Guided Caliphs). The Philosopher Bin Khaldoon notes in his memos how Islam raised the Arabs:

> "Consider the moment when religion dominated Al-Rashideen's policies and led them to observe a religious law designed to promote the moral and material interest of civilization. Under a series of successors to the Prophet, how vast their empire became and how strong it was established." (Translation in Mansfield, 1985, p. 37, emphasis added)

The dynasty lines started then with the Ommayah dynasty (661-750) ruling from Damascus and changing the capital of the Islamic world as a sign of their power. The tribal leaders of Ommayah were located in Damascus at that time, and this is an example of one of the struggles that Islam preached against as the ruling power became a descendent right rather than being based on "the most righteous" (Al-Ghathami, 2009). The Abbasiyyah dynasty followed from 750 to 1258, and then the Ottomans (1299-1923).

By the time of the last phase of the Ottoman Empire, the people of Arabia practiced *Jahiliyah* rituals again; several Islamic teachings had been abolished and many pre-Islamic idolatry rituals re-emerged. People quickly became attached to tribalism, and wars arose between tribes leading to a harsh environment and 'survival of the fittest' (Okashah, 2001).

2.3 The Social System in Arabia

The social system in the Arabian Peninsula thus became based on clans and tribes as these provided the only protection for individuals; the rules of social conduct were set down by a small number of families, as the protectors and providers to clan members

(Al-Naqeeb, 1996)[6], and each tribe had a Sheikh who acted as the tribal leader (Wynbrandt, 2010). The tribe became the source of legal and regulatory rules for individuals led to alliances being made solely at tribe level; as a result tribe's were best placed to preserve peace and resolve conflicts (El Mallakh, 1982). The assurance of survival in harsh living conditions strengthened peoples' loyalty to the tribal system, making it the main political force in the Arabian Peninsula (Peterson, 1977; Malaika, 1993; Okashah, 2001). Individualism had no part in tribal mentality unless it served the tribe's interests, leading individuals to act in accordance with tribal and family expectations (Malaika, 1993). These relationships between individuals, family friendship and the tribe- and hence society- allowed people to commit strongly to tribal and family obligations, obligations which are very distinctive from those found in Western societies (Berger, 1957) This historical context explains the modern system of ruling families in Arabia, as Arab leaders have their roots in tribal society (Muna, 1979). Most political and economic power is in the hands of the ruling family and those who are close to the centre, such as government officials, those with high social status and prestige within society (Berger, 1957). Thus, strong kinship is one of the main institutional characteristics of Arab society (Muna, 1979).

Cultural and social values are important within tribes and values such as kinship and nepotism remain a distinctive part of relationships in Saudi Arabia today (Muna, 1979; Malaika, 1993). In this context, Muna (1979) noted that:

> "Small groups in Arab society are formed on the basis of primordial ties such as family, school or neighbourhood friendship, religious and regional affiliation as well as other competing ties and loyalties such as political party, trade, or profession. However, the strength of such ties, and the types of them that are important, differ from person to person and from society to society; it will be argued that it is the former primordial ties which are generally the more pervasive and more important.". (p.73)

[6] Individual would relate themselves to tribes rather than an area or a city, however most tribes would be associated with particular cities or areas (Okashah, 2001).

Thus, these values and norms of Arabs influence behaviour and expectations within society in which family and relationship ties dominate (Muna.1979). This framework is equally important when looking at organizational structures where Arab managers and owners rely primarily on family and friends for ‘getting things done’ (Muna, 1979).

2.4 Saudi Arabia

In 1744 an Islamic scholar called Mohammad bin Abdulwahhab returned from Makkah where he had been taught Islam and started preaching to his people within the Najd province[7] about the wrong doings of idolatry rituals and the true teachings of the prophet Mohammed. However, bin Abdulwahhab was weak and did not have the protection needed to fulfil this task; he therefore made an alliance with the Sheikh of Dariyah,[8] Mohammed bin Saud,[9] with the new government being based on the teachings of Islam; this was the start of the country of Saudi Arabia (Ibn-Bishr, 1982).[10]

The Al- Saud family increased its rule over the Arabian Peninsula and, with the help of the English, were able to seize most of the Ottomans’ land. By 1932 King Abdul-Aziz had united most of the Arabian Peninsula under one flag, the point now regarded as the birth of modern Saudi Arabia (AL-Turaiqi, 2008). The country was founded on the teachings of Islam, with the legal system[11] based on the two Islamic sources: the Holy Quran; and the Sunnah (teachings of the prophet Mohammed, PBUH) (El Mallakh, 1982; Al-Harkan, 2005). The beliefs and values of Islamic teaching have now been embedded in Saudi society and underpin social norms and practices. Islamic teachings

[7] The middle region of Saudi Arabia
[8] A small village within the region of central of current Saudi Arabia
[9] The great grandfarther of King Abdul-Aziz the founder of current Saudi Arabia
[10] The name of the country came from the family name of the founder Mohammed bin Saud.
[11] The civil law is also adopted in regulating companies and entities; this is touched upon later in this chapter.

have also influenced the regulatory environment in Saudi Arabia. Indeed, the King was criticised by religious scholars when he allowed the telephone, motorcycles and radio in the country as they were regarded as “tools of the devil” (Yergin, 1991). This happened because Arabs felt the need to protect themselves from western modes of life, and are typically sceptical about western technologies that might influence their cultural values and religious beliefs (Martyr, 1985). Here, Mansfield (1977) noted that:

> “No one can tell what political and social institutions the Arab people will have developed by the end of the momentous century. All that can be said with certainty is that, however much they derive from foreign movements and ideas, they will have a specifically Arab and Islamic character” (p.552)

2.4.1 Geography of The Country

To most Muslims, Saudi Arabia is the most religious place on earth. The two holy mosques[12] are located in Saudi Arabia. The Kingdom covers most of the Arabian Peninsula (around 2.3 million square kilometres) with most of the land being desert with scarce water resources (El Mallakh, 1982). Figure 2.1 shows a map of Saudi Arabia as it is today.

[12] The two holy mosques are located in the cities of Makkah and Al-madeenah

Figure 2.1 Map of Saudi Arabia

Saudi Arabia is a unique setting with its own institutional factors that are likely to impact on the corporate governance framework. The country has only been in existence for 90 years, and before then many tribes struggled to survive. It is an emerging economy that has only just started to gain access to the world economy since it became a member of the World Trade Organization as late as 2005 (WTO, 2012; Habib, 2008)[13]. Saudi Arabia maintains its own values and cultures that govern most social conduct, yet the development of a traditional country such as Saudi needs to maintain an institutional structure that absorbs change (Eisenstadt, 1989).

[13] http://www.wto.org/english/thewto_e/countries_e/saudi_arabia_e.htm accessed on 18.12.2012

2.4.2 Revolutionary Oil

Before oil was discovered Saudi Arabia was regarded as one of the poorest countries in the world; 80% of the country is covered in desert and it lacked natural resources. The search for oil started in Saudi Arabia in 1933[14], and when oil was found in 1938 petrodollars began flooding the kingdom. Today, no country in the world has as much influence as Saudi Arabia on the production and pricing of crude oil and other petrochemicals (Niblock, 2013). It is one of the leading countries in oil and petrochemical production, (See Figure 2.2), by far the largest in the Middle East. The discovery of oil changed the landscape of the country over a short period of time, shifting the landscape from having the king, Abdul Aziz, carry the country's national treasury on a back of a camel with 95% of its inhabitants illiterate, to driving cars, building sky scrapers and witnessing progressive change and development (Butler, 2008; Yergin, 1991). In order to embark on the modernization of the country there was a heavy reliance on the experience of qualified foreign workers in various industries (Ali, 1995). Although, with the country having one fifth of the world's proven oil reserves, nearly 75% of the kingdom's revenue comes from the sale of oil (CIA, 2011), there have been many efforts to diversify the Saudi economy in order to reduce the country's dependency on a single industry and to encourage foreign investment (MEP, 2009; Chazi et al., 2010).

Saudi Arabia is a member of the Gulf Cooperation Council (GCC) and, as Table 2.1 demonstrates, is ranked as one of the most competitive of GCC countries; however, the table also shows that it is regarded as one of the most corrupt countries in the Gulf region (Transparency International, 2012). The Saudi government has maintained a

[14] An agreement was signed in 1933 between Saudi Arabia and California's Standard Oil for the latter to explore oil wells in Saudi Arabia (Yergin, 1991).

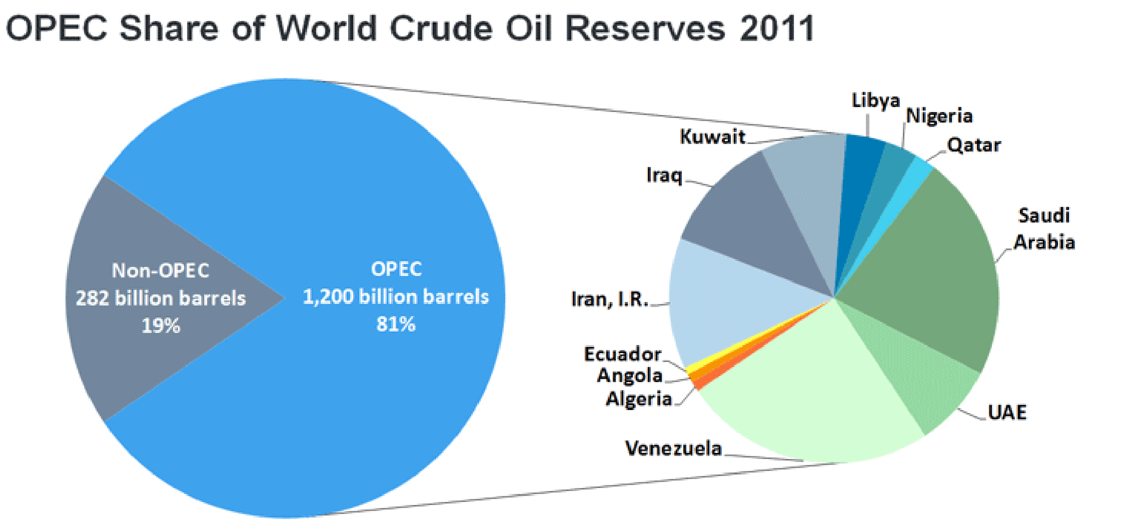
series of five-year plans to achieve goals in various socio- economic levels, with plans in education, healthcare, human resources, infrastructure and energy; according to the Ministry of Economy and Planning (2009) the strategy focuses on improving living standards, developing human resources, employability and increasing the production of local Saudi goods for sale on the national and international market (MEP, 2009).

Table 2.1 Rank of Gulf countries (competitiveness/ corruption)

Competitiveness Rank*	Corruption Rank**
Qatar	KSA
KSA	Kuwait
UAE	Oman
Oman	Bahrain
Kuwait	UAE
Bahrain	Qatar

Note: the table lists gulf countries ranked in terms of their competitiveness (Competitiveness is developed by the world economic forum and the OECD based on a set of institutions and policies which determine the level of countries productivity) and corruption. Source:* (Scheab, 2012) **/ (Transparency international, 2012)

Figure 2.2



OPEC proven crude oil reserves, end 2011
(billion barrels, OPEC Share)

Venezuela	297.6	24.8%	Iraq	141.4	11.8%	Libya	48.0	4.0%	Algeria	12.2	1.0%
Saudi Arabia	265.4	22.1%	Kuwait	101.5	8.5%	Nigeria	37.2	3.1%	Angola	10.5	0.9%
Iran, I.R.	154.6	12.9%	United Arab Emirates	97.8	8.2%	Qatar	25.4	2.1%	Ecuador	8.2	0.7%

Source: OPEC Annual Statistical Bulletin 2012

The development strategy is geared towards innovation, but is also, intends to take into account social and cultural perceptions and attitudes towards development; therefore, an important element of each of the five-year plans is maintaining the social and cultural values and beliefs underpinning Saudi society. Such an approach led to the acceptance by Saudi Sheikhs and rulers of the modernisation of the country experienced after the discovery of oil.

The importance of the previous discussion to the present study lies in the tendency for executive managers and board members from Saudi society to carry with them these social and cultural values (Muna, 1979; Malaika, 1993). Thus, it is important to note that some aspects of laws and regulations, including corporate governance codes, based and derived within a western context, might not be applicable within the context of an Arab country such as Saudi Arabia.

2.5 Legal and Regulatory System

The legal system that governs corporations in Saudi Arabia is based on French civil law (Koraytem, 2000; Sourial, 2004). According to La Porta et al. (1997, 2000) a country's legal system, particular the extent of enforcement of laws, is fundamental to corporate governance practices and economic development. This section of the chapter therefore gives an overview of the legal structure pertaining within Saudi Arabia to provide an understanding of the regulatory environment in which its listed companies operate. To this end, the next section discusses the regulatory bodies currently in place in Saudi Arabia and the ownership structure of the kingdom's listed companies.

2.5.1 Ministry of Commerce and Industry

The Ministry of Commerce and Industry was established in 1953. Its main role related to the oversight of commercial activities within the KSA. The Ministry is responsible for initiating and implementing trade policies, issuing and implementing new regulations, encouraging local trade, developing and maintaining foreign trade relations and also helping expand production and export of non-oil products[15]. However, one of the Ministry's key responsibilities is to oversee company law, an issue which is discussed later in detail. More generally, the Ministry is concerned with developing plans for improving the skills and qualifications of Saudi citizens in order for them to offer more to the economy and replace foreign workers.

2.5.2 The Saudi Arabian Monetary Agency (SAMA)

SAMA was established as the central bank of Saudi Arabia[16] to regulate and monitor economic affairs in the financial sector. Its main functions are to: (i) issue the national currency, the Saudi Riyal; (ii) act as a banker for the government; (iii) supervise commercial banks; (iv) manage the Kingdom's foreign exchange reserves; (v) conduct monetary policy aimed at promoting price and exchange rate stability; and (vi) promote growth and ensure the soundness of the financial system.

In 1984 SAMA took over as the regulator of the Saudi stock market. It oversees development of the financial system and all matters related to trading, introducing an Electronic Share and Information System (ESIS) in 1990. Recently, SAMA introduced a corporate governance code (Appendix B) specific to the financial sector, in line with

[15] http://www.mci.gov.sa/AboutMinistry/Pages/MinistryFunctions.aspx
16 By Royal decree on 20/4/1952

the recommendations of the Basel committee on banking supervision and the OECD principles on corporate governance (SAMA, 2011).

2.5.3 The Capital Market Authority

The Capital Market Authority (CMA) was established in 2003 with financial and administrative independence; it acts as the developer and regulator of the Saudi Arabian capital market.[17] Its stated objective is to establish and maintain an 'appropriate' investment environment. In achieving these aims the role of CMA comprises: (i) organising and developing the Saudi capital market (TADAWUL) and developing the methodologies of trading in securities; (ii) ensuring protection for investors against unethical practices such as fraud, manipulation or trading based on insider information; (iii) achieving justice, efficiency and transparency in securities transactions; (iv) developing rules and regulations that reduce risk bearings when dealing with securities investments; (v) developing, regulating and monitoring the issuing and trading of securities; (vi) regulating and monitoring the activities of the entities which are under its jurisdiction; and (vii) regulating and monitoring the disclosure of information regarding securities and their issuers. In 2006, the CMA issued the first KSA corporate governance code, arguably as a means to restore investor confidence after the market crashed in February of that year (Falgi, 2009). The CMA continues to issue regulations and communications through announcements on its web site and holds 'awareness seminars' in order to increase investors understanding of issues such as corporate governance (CMA, 2011).

[17] Established by Royal Decree No (M/30) dated 2/6/1424H.

2.5.4 Saudi Stock Market (TADAWUL)

The Saudi stock market was first established, unofficially, in 1935 (Al-Jaser, 2002). However, only five companies were listed by 1954, and it remained unregulated, and informal (Al-Barrak, 2005). SAMA was ordered by a royal decree to regulate and monitor all securities activities in 1984 (SAMA, 2013), with the role passing to CMA when it was established in 2003. The stock market became a joint stock company after a Royal decree issued by the King in 2007 (TADAWUL).[18]

Only 81 companies were listed on the stock exchange in 2005, but today the stock market is one of the largest in the Middle East[19] with, as Table 2.2 shows, nearly 160 companies listed by the end of 2012 (Tadawul, 2013).[20]

The Saudi stock market is also regarded as one of the largest in the region in terms of market capitalization (Piesse et al. 2012) with a value at the end of 2012 of 1400bn SR. TADAWUL’s role is therefore important; these comprise: (i) operating the market effectively and efficiently; (ii) ensuring market integrity and fairness (iii) supporting investor education and awareness efforts; (iv) developing service excellence for customers (Brokers, issuers, investors,); and (v) developing the exchange’s capabilities and competencies.

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[18] http://www.tadawul.com.sa/wps/portal/!ut/p/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3g_A-ewIE8TIwODYFMDA08Tn7AQZx93YwN3I_3gxCL9gmxHRQCI_lsB/

[19] According to world bank Saudi Arabia market capitalization is 373 billion by the end of 2012

[20] One of the reasons for the increase in the number of listed companies is the privatisation process that the government has embarked on in a variety of its economic sectors (Al-Ghamedi, 2012).

Table 2.2 Saudi Stock Market Exchange 2007-2012

Year	No. Listed Companies	No shares traded (Million SR)	Value of shares traded (Billion SR)	Market Cap for issued shares (Billion SR)	Share price index
2007	111	57829	2557.7	1946.4	11038.7
2008	117	58726	1962.9	924.5	4803
2009	144	56685	1264	1195.5	6121.8
2010	147	33255	759.2	1325.4	6620.8
2011	150	48544	1098.8	1270.8	6417.7
2012	158	82540	1929.3	1400.34	6801.2

Note: The table illustrates the growth of the Saudi stock exchange in recent years in terms of the number of companies listed and shares traded SR= Saudi Riyals. Source: Saudi stock exchange (Tadawul)

The Saudi stock exchange had 158 companies in 2012, spread across fifteen sectors; Table 2.3 details the number and percentage of companies in each sector.

Table 2.3 Saudi Listed Companies Classification

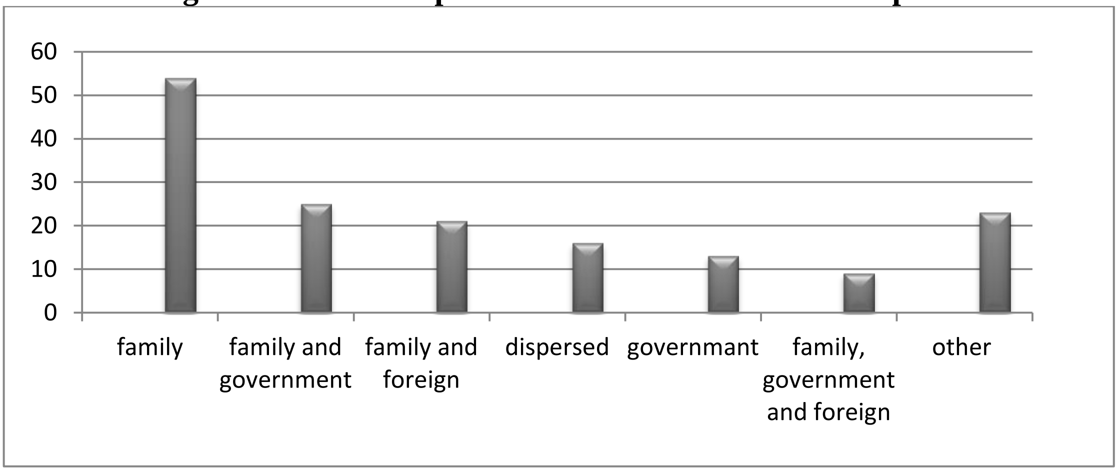
Sectors	No. Of Firms	Percentage
Banks & Financial Services	11	**7.0%**
Petrochemical Industries	13	**8.2%**
Cement	12	**7.6%**
Retail	12	**7.6%**
Energy & Utilities	2	**1.3%**
Agriculture & Food Industries	16	**10.1%**
Telecommunication & Information Technology	5	**3.2%**
Insurance	33	**20.9%**
Multi-Investment	7	**4.4%**
Industrial Investment	14	**8.9%**
Building & Construction	15	**9.5%**
Real Estate Development	8	**5.1%**
Transport	4	**2.5%**
Media and Publishing	3	**1.9%**
Hotel & Tourism	3	**1.9%**
Total	**158**	**100 %**

Note: The table indicates the number and percentage of companies in each sector in the Saudi stock market as of 2012. Source: (Tadawul).

2.5.5 Ownership Structure

The corporate governance model in Saudi Arabia can be classified as an ‘insider model’ with many of the companies in the stock market owned by families and government shareholders (Solomon, 2010). Figure 2.3 shows that more than 50 companies in the stock market (33%) are primarily controlled by family shareholders; this is in line with the 'family and founder' ideology playing a major role in the corporate sector in Saudi Arabia (Robertson et al., 2013). In addition, the government has explicit control over 12 companies in the stock market. In fact, previous studies have argued that 75 percent of the companies in the stock market are family-controlled while the remaining 25 percent are in the control of the government (Toonsi, 2003); the current, more recent, study suggests a different pattern, reflecting new companies listing on the Saudi Stock Market over the past ten years with different types of ownership structure often foreign and/or dispersed. Figure 2.3 also shows that fifteen percent of companies in the stock market are controlled by both family and the government, representing the second highest amount of control of the stock market.

Figure 2.3 Ownership Structures of Saudi Listed Companies



Note: The figure shows the number of companies controlled by each group of shareholders for all listed companies. The information used in developing this figure was obtained from the disclosed ownership information on the Saudi Stock Exchange web site (Tadawul) as of 6 June 2013.

2.5.6 Islamic Companies

In KSA, the term 'Islamic company' is used to identify a firm that adheres to Islamic teaching in its activities, financing and investments. Thus companies that deal with pork, alcohol, gambling or speculation are prohibited in Islam and therefore are regarded as non-Islamic. Even if a company's main activities do not include any other 'non-halal' activity, it still might be regarded as a non-Islamic company if it has interest-based loans as interest is regarded as an impure activity within Islam (Uusmani, 2002) [21]. Islamic companies comply with Sharia law, and many of the companies listed in the stock exchange strive to be Islamic, because Muslims will often prefer to invest in Sharia-compliant companies (Uusmani, 2002). These religious influences have led companies to make changes to ensure that their loans are interest free; currently around half the companies on the Saudi stock market are regarded as Islamic companies (Al-Fouzan, 2012).[22]

2.6 Companies Act

In the conduct of business, the Ministry of Commerce and Industry introduced a new regulation, approved by the council of ministers, in the form of the Companies Act 1965. The law represented a first attempt to regulate companies and their affairs in Saudi Arabia, covering regulations regarding company structures and corporate governance issues such as the number of directors on the board, CEO duality, board composition, remuneration, internal control and shareholder's rights. The act was updated in 2007, and is currently undergoing discussion in the Consultative council[23] (Majlis Alshura) regarding reforms of many sections to be recommended to the council of ministers to adopt these amendments.[24]

[21] The teachings of Hinduism, Christianity and Judaism also prohibit interest (usury) (Hassan and Lewis, 2007)
[22] http://main.islammessage.com/newspage.aspx?id=9663
23 Is an advisory body to the council of ministers, it roles comprises of giving opinions to the council.
24 According to a member of the Consultative council, they have reached a draft of a new company act that will be introduced to the Ministry of councils for approval.

2.7 Saudi Corporate Governance Code

The Gulf region hosts many countries that have adopted corporate governance codes. The first such country to adopt a code was Oman, in 2002, possibly due to the influence of foreign investors, since Oman has offered an open market to these parties since 1998 (Sourial, 2004). Before 2006 there was no unified corporate governance regulation in KSA (Sharif, 2006), resulting in very limited disclosure and transparency. The corporate governance code in Saudi Arabia was introduced at the end of 2006 by the CMA[25], and marked the first attempt by an official body to formalise corporate governance practices in Saudi Arabia. The CMA argues that the code was introduced in an attempt to reduce the extent of rumours within the market and fraudulent practices, particularly insider trading (CMA, 2011).

The Saudi corporate governance code has three main sections. The first relating to the rights of shareholders and the AGM; the second is in regard to issues of disclosure and transparency, while the final section discusses the role and responsibilities of the board of directors as well as board composition. The code mostly adopts a ‘comply or explain’ approach, but the CMA board has mandated some sections of the code such as Article 9 which points to: (i) disclosure in the board’s report on other directorships of the board members; (ii) composition of the board, identifying executive and non-executive board members; (iii) details on the compensation of the board members; and (iv) disclosing the compensation of the five highest executives, including the CEO and CFO; and (v) noting in the director’s report the sections of the code that the company has complied with and justifying cases of non-compliance (comply or explain). The CMA also mandates section I and J of Article Five whereby the company must make available to

[25] An English translation of the code is provided in Appendix A

all shareholders the minutes of AGMs and inform the stock exchange of decisions made in AGMs (CMA, 2006). Recently, in December 2012, the CMA board mandated that all listed companies should develop an internal corporate governance code that is consistent with the Saudi corporate governance code, and also develop explicit policies and procedures for board membership (CMA, 2012).

2.7.1 The Board of Directors

The Saudi corporate governance code emphasizes the important role of the board of directors, stating that there should be a majority of Non-Executive Directors (NEDs) on the board, while also outlining a number of specific roles that the board is expected to carry out. The code states that the main functions of the board are: (i) to approve the strategic plans and main objectives of the company and supervise their implementation; (ii) to lay down a comprehensive strategy for the company; (iii) to determine the most appropriate capital structure for the company, its strategies and financial objectives and approve its annual budgets; (iv) to decide the performance objectives to be achieved and supervise the implementation of these and the overall performance of the company; (v) to review and approve the organisational and functional structures of the company on a periodic basis.

The code states that boards should have between three and eleven members comprising executive and non-executive directors with a majority being non-executive, while emphasising that there should be at least three of the latter who are independent.

2.7.2 Board Sub Committees

The only board committees that were adopted in Saudi companies before the introduction of the 2006 code were the audit committee (Al-Motaz, 2003) and in the banking sector, the *sharia* and executive committee (Al-Ajlan, 2005). The Saudi corporate governance code has recommended the adoption the audit committee, which the board is required to have by law as well as the remuneration and nomination committee. The code allows companies to establish any other committees they require.

2.7.3 The Audit Committee in KSA

The establishment of audit committees in Saudi Arabia became mandatory after the Ministry of Commerce issued a resolution in 1994 requesting all public listed companies to do so (Al-Twaijry et al, 2002; Al-Moataz, 2003; Al-Lehaidan, 2006). The number of companies that had established such committees in the past was very low. Before 1994, no company had established any board committees (Piesse et al., 2012), indeed, by 2001, only 5 companies had an audit committee (Al-Qarni, 2004.). Even where audit committees were established, they were composed of executive directors (Al-Moataz, 2003). The corporate governance code emphasises the importance of the audit committee and, as a listing requirement, the CMA now mandates that listed companies should have an audit committee.

2.7.4 The Remuneration and Nomination Committee[26]

At the initial introduction of the corporate governance code, the setting up of remuneration and nomination committee was a voluntary provision of the code, but later in 2010 the CMA regulatory body mandated that all listed companies should establish a remuneration and nomination committee by 2011 (CMA, 2010). The main duties of this committee are: (i) recommend the nomination of individuals onto the board; (ii) the annual evaluation of the experience and qualifications needed for board membership, including the time which a board member should allocate to performing board tasks; (iii) evaluating board structure and recommending any changes to the board; (iv) establishing the strengths and weaknesses of the board and recommending to the board ways to resolve them; (v) ensuring the independency of INED and that there are no conflict of interests when board members have other directorships; and (vi) developing a clear policy for the remuneration of board members and the executive team.

Table 2.4 gives an illustration of the institutions and organisations that have an influence on companies' structures in Saudi Arabia. The establishment of different institutions to deal with more specific regulations and tasks such as SAMA, CMA, and SOCPA has paved the way for better efficiency and wider adoption of regulations, including the establishment of corporate governance departments within the Saudi stock market (OECD, 2012).

[26] In the KSA corporate governance code the Remuneration and Nomination Committee is referes to as one committee and not as two separate committees as that in codes in other counties.

Table 2.4 Laws and Organizations Influencing Saudi Companies

Regulation/Organisation	Year	Description/ Purpose
The Income Tax and Zakat Law	1950	First regulation that mandated companies to hold accounts in order to calculate the Zakat (Islamic tax)
The Companies Act	1965	Over 200 articles govern the legal framework of entities
Saudi Organization for Certified Public Accountants (SOCPA)	1992	Regulator and issuer of accounting and auditing standards
Capital Market Authority (CMA)	2003	Regulate and develop the capital market
the Saudi Corporate Governance Code	2006	Regulate the corporate governance practices of listed companies
SAMA Corporate Governance Code for the Banking Sector 2012	2012	Regulate the corporate governance practices of banks whether listed or non-listed

Note: the table shows the regulations and regulatory bodies that influence Saudi companies.

In 2008, the World Bank assessed the implementation of corporate governance practices in KSA listed companies, benchmarked on the OECD principles of corporate governance, and found that although the Saudi corporate governance code had mandatory disclosure requirements regarding corporate governance issues such as board and committee composition, related party transactions and remuneration of directors, the level of corporate governance disclosure by listed companies was still very weak, with no laws protecting whistle-blowers. They also noted that there were no succession or performance evaluation frameworks for board members or executives and that very few companies had established remuneration and nomination committees (World Bank, 2009).

2.8 Summary

This chapter first provided an overview on the political, cultural and social context of the Arabian Peninsula, including setting out how tribal and social values arose and became embedded within the Arab culture.

The chapter then looked at the establishment of the KSA, focusing on the country's legal system and the main institutions and regulations that govern businesses in Saudi Arabia, including the establishment of the Saudi stock market. Finally, the chapter discussed the main sections of the Saudi corporate governance code issued in 2006 and in force at the time of this study.

This chapter sets out the context of the current study in order to be able to better provide meaningful explanation on the factors that influence corporate governance practices among the organisational field of KSA-listed companies. The next chapter will examine the relevant corporate governance literature.

Chapter three: Literature review

3.1 Introduction

The previous chapter gave a background to the Saudi context. This chapter reviews the academic literature on corporate governance by discussing the main themes. The remaining of this chapter is organised as follows: Section 3.2 gives different views on the definitions of corporate governance and defines corporate governance in the context of this thesis. Section 3.3 outlines the diffusion of corporate governance codes starting with the UK experience. Section 3.4 outlines the current corporate governance models, before Section 3.5 discusses corporate governance in emerging markets. Then Section 3.6 outlines the main corporate governance mechanisms, before section 3.7 that reviews corporate governance studies in the Saudi context, finally Section3.8 gives a summary of the chapter.

3.2 Definitions of Corporate Governance

Corporate governance has been approached from a variety of disciplines such as economics, management, law, politics, culture, and sociology, contributing to different definitions from different angles, resulting in no one agreed upon definition of corporate governance (Mallin, 2007). For example, the Cadbury code (1992, p.13) notes that it is "the systems by which companies are directed and controlled". Letza et al. (2004) offer a stakeholder's perspective on corporate governance, stating:

> Corporate governance is about the understanding and institutional arrangements for relationships among various economic actors and corporate participants who may have direct or indirect interests in a corporation, such as shareholders, directors/managers, employees, creditors, suppliers, customers, local communities, government, and the general public (p. 242).

Corporate governance is defined by Zingales (1997) from an economic perspective as:

> 'The complex set of constraints that shape the ex-post bargaining over the quasi-rents generated in the course of a relationship' (p.496)

The International financial corporation (IFC) also defines Corporate Governance as:

> "The structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, the Board of Directors, the controlling shareholders, minority shareholders and other stakeholders".

The OECD (1999) also gave a definition for corporate governance that:

> "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (p. 11).

La Porta et al. (2000, p. 4) also define corporate governance as 'a set of mechanisms through which outside investors protect themselves against expropriation by insiders'. Tricker (1984) gives another definition from an accountability perspective, stating that:

> "Corporate governance is concerned with the process by which corporate entities, particularly limited liability companies, are governed: that is with the exercise of power over the direction of the enterprise, the supervisory and control of executive actions, the concern for the effect of the entity on other parties, the acceptance of a duty to be accountable and the regulation of the corporation within the jurisdiction of the states in which it operates" (p.8).

Definitions of corporate governance share the concern of companies for their shareholders, their internal control systems, engagement with stakeholder groups and external aspects of their roles in society (Shleifer and Vishny, 1997; Cadbury, 1992;

OECD, 1999). Mallin (2007) states that an important aspect of corporate governance lies in ensuring that an effective internal control system is adopted, and also that no one person or group has too much power over the decision making of the board. Blair (1995, p. 3) gives a broader view of corporate governance as:

> "The whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised and how the risks and returns from the activities they undertake are allocated".

The previous definitions identify corporate governance from the paradigm and perspective of each subject's view on corporate governance issues, whether from legal, social or economic perspectives. The latter definition of corporate governance by Blair identifies with many of the dilemmas surrounding businesses and their environment, and is in line with the pattern of the current research and is used here for this research.

Corporate governance was introduced as a measure to prevent corporate failures globally (Dunne et al., 2003; Mallin, 2007). The importance of corporate governance rose with the financial collapses and scandals that were a result of failures in governance structures, such as the Asian financial crisis 1997-1999, the collapses of Enron and WorldCom in the US, also in Europe, Royal Ahold, Parmalat Maxwell and Polly Peck (Pettigrew and McNulty, 1995; Melis, 2005). The case of Enron is regarded as one of the most significant collapses attributed to failures in corporate governance mechanisms over internal control systems and the weak functioning of non-executive directors (Solomon, 2007). An example of bad corporate governance is that of Royal Ahold, a Dutch company, which had a dominating chief executive officer (CEO) whose decisions led the company to suffer a £500 million loss and the role of institutional investors was also oppressed by having such a dominating CEO (Mallin, 2007).

A lack of independence in the board room is also a main corporate governance weakness that may lead to a company's failure (Mallin, 2007). Parmalat had 13 directors, only 3 of whom were regarded as independent. This is a possible example of the important role of independent non-executive directors. These aspects of the board of directors will be discussed in more detail in an upcoming section.

The importance of corporate governance is not only as means to reduce corporate scandals but also to promote growth, accountability, gaining access to external finance, lowering the cost of debt and reducing the probability of financial crisis (McGee, 2009 ; Claessens and Yurtoglu, 2013). Having defined the term corporate governance and its importance the chapter now turns to the diffusion of codes of governance, starting with the UK's experience because the first corporate governance code was established in the UK.

3.3 The Diffusion of Corporate Governance Codes

In the last two decades, many codes and regulatory reports have been adopted around the world and have been developed to introduce greater transparency, accountability and to gain investors' confidence in the markets in order to attract investments (Mallin, 2007; Burton et al., 2004). Further, many countries have industries that have been state-owned, the privatization process of these industries has led to a need for better corporate governance (Cuervo and Villalonga, 2000; Mallin, 2007).

The Cadbury Report was the first code to establish the foundations for corporate governance, driven by many company collapses, such as the Maxwell affair in 1991, which was regarded at that time as the greatest fraud of the 20th century (Solomon, 2007; Tricker, 2009). Sir Adrian Cadbury chaired the committee and the published report is known by his name, although its official title is “The Financial Aspects of Corporate Governance”. The code focused on the board of directors as the most important and fundamental corporate governance mechanism.

The Cadbury code focused on three main issues relating to corporate governance: the role and responsibilities of the board of directors; auditing; and the role of shareholders. Cadbury (1992) describes the role of the board of directors as leading the company by providing effective leadership and overseeing the management of the company, and also suggests that the role of the chairman should be separate from that of the Chief Executive Officer (CEO). Cadbury (1992) also considers the role of non-executive directors (NEDs) on the board to bring knowledge, experience and independent judgment, emphasising the importance of the NED’s independence. One of the recommendations of Cadbury (1992) was for a new committee to be established to review the level of implementation and compliance of the not hitherto mandatory Cadbury Report. The Greenbury Committee (1995) was thus established in January 1995 focusing on director remuneration because of the concern of shareholders and the public about the high salaries of “Fat Cat” directors at that time (Greenbury, 1995).

The Hampel committee was established to review both the Cadbury Report and the Greenbury Report, issuing its recommendations in 1998 (Mallin 2007; Solomon 2007). By 1998, the Combined Code was published, considering the recommendations of Cadbury, Greenbury and the Hampel Reports (Keasey et al. 2005; Mallin 2007; Solomon, 2007). Shortly afterwards, the Turnbull committee was established to give guidelines for companies to follow in order to implement effective internal control systems (Keasey et al. 2005; Mallin, 2007). A few years later, in 2001, the Myners Review focused on the role of institutional investors.

After the Enron scandal in the US, many countries updated their corporate governance systems. One of the causes of the failure of Enron and other companies at that time was due to the ineffectiveness of the non-executive directors (Solomon, 2007). This might be why in the UK the Higgs committee (2003) reviewed the role of non-executive directors to enhance their effectiveness and independence by improving the Cadbury recommendations in ensuring the independence of outside directors (Keasey et al. 2005; Solomon, 2007). The forty page document emphasised more regulation, although voluntary, to enhance the independence of board of directors, and it is regarded as the UK's equivalent to Sarbane-Oxley due to its time of publication after the aftermath of Enron.

The Smith Report was also published in 2003. The report gave guidance on the relationship between companies and external auditors and on the role of the audit committee. Attention to the role of audit committees came about as a result of the scandals at that time, which were also attributed to weak audit committees (Solomon, 2007). The second draft of the UK Combined Code was published in late 2003 incorporating the recommendations of all previous reports. However, the new code did not take into account some of the recommendations of the Higgs Report, which raised some concerns, for example it did not suggest that the chairman of the board should not be the chairman of the nomination committee (Higgs et al. 2003). In January 2006 the Financial Reporting Council (FRC) released the revised Combined Code (2006), making changes to the 2003 code. For example, it allowed the Chairman of the board to be a candidate for the chair of the remuneration committee (Solomon, 2007). The FRC introduced a newer version of the Combined Code in 2008; the main changes were related to the chairman of a company being unable to be a chairman of another company from the FTSE 100, and removing the restriction of the chairman for being a member of the audit committee.

After the recent financial crisis, the Walker review was established in 2009 and gave its final review to the FRC on the state of corporate governance in financial institutions. This lead to the revised 2010 combined code which emphasized the strategic and stewardship role of the board. In 2011 Lord Davies was requested by the UK coalition government to commence a review of the barriers of board diversity and the weak representation of women directors in boardrooms (Mallin, 2013). The FRC issued a new code in 2012 that requests the nomination committees to include in the annual report the recruitment policy on board room diversity, the revised code also required that audit committees inform shareholders on how they carried out their roles, and to fully explain to shareholders cases of non-compliance with the codes guidelines (FRC, 2012; Mallin, 2013).

The corporate governance framework in the UK was not achieved over night, on the contrary, it has been over two decades since the publication of the first corporate governance report in the UK, yet many governance reforms and regulation still take place. Thus, it can be learnt from the UK experience that codes are not meant to be solid rules that have no room for flexibility, but need to develop in the context of the economic and social affairs in which a country strives to achieve. Such an experience may shed some light to other countries such as Saudi Arabia on how a country's approach to corporate governance may be enhanced and developed.

In the US, many financial scandals, such as Enron, led to regulatory reform. The Sarbanes-Oxley Act (SOX) was issued in 2002 focusing on financial reporting and internal control systems. A major requirement of SOX is that the CEO and CFO (Chief Financial Officer) of US listed companies must certify that the annual and quarterly financial statements truly represent the financial aspects of the company, thus making them accountable for the accuracy of the financial statements (Mallin, 2007; Solomon, 2007). Auditors of US companies are obliged to audit the internal controls of the company and check and report on the effectiveness of the internal control system (Solomon, 2007). Although the legislation had been a draft several years prior to its issuing, the US congress was lobbying against more regulation at that time, However the financial scandals showed a coercive influence on the congress to change their opinion regarding SOX which resulted in the issuing of the act. This also shows that events such as financial scandals and failures make opportunities to criticize current regulatory practice which paves the way for new governance reforms. The need of efficiency and attracting external capital has also resulted in the convergence to corporate governance codes all around the world (Maher and Andersson, 2000).

3.3.1 The OECD Principles of Corporate Governance

The OECD Principles of Corporate Governance was published in 1999, giving guidelines to many countries around the world to use the principles as a benchmark for developing their own codes, especially OECD countries and emerging economies (Enrione et al,. 2006; OECD 1999). The World Bank and other international bodies like the International Corporate Governance Network (ICGN) have also recommended the development of corporate governance on a global scale.

In 2002, a review by the OECD corporate governance group was carried out, looking at the challenges that countries faced when adopting the OECD principles while also taking into account the scandals at that time, which led to a new version of the corporate governance principles in 2004. The OECD principles of corporate governance are classified into six specific areas: (i) ensuring the basis for an effective corporate governance framework; (ii) the rights of shareholders and key ownership functions; (iii) the equitable treatment of shareholders; (iv) the role of stakeholders in corporate governance; (v) disclosure and transparency; and (vi) the responsibilities of the board. These principles were published to take into account the fact that countries differ in regard to their culture and their stage of market development.

The OECD principals of corporate governance have had an influence on the codes of many developing Arab countries, and UK and US corporate governance have also influenced other developing countries to develop their codes. India, Hong Kong, Japan, Korea, Malaysia, Thailand and Singapore have all developed a corporate governance code (Allen, 2000); however, the practices of developing countries in regards to their corporate governance codes are still limited (Harabi, 2007).

The commonly accepted principles have been driven mainly from Anglo-Saxon countries. The efforts of the OECD in governance reform seem to be in line with the notion of a global convergence to a national system of corporate governance (Mallin, 2002). The adoption of laws and legislations from developed countries to developing countries has proven to be unsuccessful (Black and Kraakman, 1996). Kapardis and Psaros (2006) suggest four requirements in order for an Anglo Saxon model to be effective in other developing countries around the world: (i) a low concentration of ownership; (ii) accurate, reliable, timely information flow to the market; (iii) a highly liquid and sophisticated security market; and (iv) a well-developed legal infrastructure to protect against wealth transfer and insider dealing. An Anglo Saxon model that is adopted in emerging countries should have the criterion of that model in order to produce an effective outcome. The next section will illustrate more on corporate governance models.

3.3.2 Convergence of Corporate Governance codes

The Cadbury Report inspired other countries around the world to start developing their own corporate governance codes (Aguilera and Cuervo-Cazurra, 2009; Triker, 2009) and formed the starting point of an institutionalized process of corporate governance code adoption (Enrione et al, 2006). France developed the Vienot Report (1995), the Cromme Code in Germany (2002), where there is a two-tier (dual) board[27]. Denmark also introduced its Norby Report in 2001 that was voluntary for companies to adopt. By 2008, sixty eight countries, including transition and developing countries, had established a code of corporate governance (Aguilera and Cuervo-Cazurra, 2009), while the efforts of other organizations, such as the World Bank and the OECD have also been important in encouraging countries to adopt governance principles.

3.3.3 Mandatory Vs Voluntary

Corporate governance reform in the US has chosen the mandatory implementation of corporate governance, this implementation approach has been influenced by the financial scandals in the US and that mandating governance reform may reduce such scandals (MacNeil and Li, 2006) whereas in the UK, a voluntary approach has been established, by either complying with the code or explaining the non-compliance (Solomon, 2007; Aguilera and Cuervo-Cazurra, 2009). Such an approach is argued to be effective under three assumptions; (i) the flexibility of firms to adjust to governance mechanisms more suitable to them; (ii) financial markets are able to assess the adequacy of corporate governance practices; and (iii) the ability of the legal framework to serve the corporate governance agenda (MacNeil and Li, 2006). It should be noted that the

[27] A dual board is where there exist two boards: the supervisory board (supervising) and an executive board, and the German CG code requires companies to have employee representatives on the former (Donnelly, Gamble, Jackson, & Parkinson, 2001). However this board tends to be dominated by representatives of the larger shareholders (Goergen and Renneboog, 2008).

approach to corporate governance reform in the UK and US has focused on the relevant issues in each country, noting that each country has different approaches that serves the interests of the corporate governance agenda. In this context, a developing country such as Saudi Arabia with many cultural and social differences from western countries, as outlined in the previous chapter, should take into account these differences when enacting corporate governance regulations. The next section discusses the different corporate governance models.

3.4 Corporate Governance Models

The legal system of a country and the ownership structure of the firm have been argued to be the main factors to influence corporate governance models (La Porta et al., 1997 Shleifer and Vishny, 1997; Solomon, 2007; Aguilera and Jackson, 2010). This section will discuss these two factors.

3.4.1 Legal Framework

According to La Porta et al. (1997) the level of the country's legal system and enforcement of laws are fundamental to the corporate governance practices and economic development. Shleifer and Vishny (1997) discuss the influence of the legal system on investor protection, noting:

> "The extent of legal protection of investors varies enormously around the world. In some countries, such as the United States, Japan, and Germany, the law protects the rights of at least some investors and the courts are relatively willing to enforce these laws. But even in these countries, the legal system leaves managers with considerable discretion. In most of the rest of the world, the laws are less protective

> of investors and courts function less well and stop only the clearest violations of investor rights. As a result, legal protection alone becomes insufficient to ensure that investors get their money back" (p. 753).

In this context, the legal system of a country and its ownership structure are two main factors that influence a country's corporate governance framework. However, it is important to note that the classification to insider and outsider models is an oversimplification of governance models which may also be influenced by other factors such as the legal environment, labour market, the capital market structure and the financial systems within a country (Maher and Andersson, 2000; Solomon, 2007). [28]

Berle and Means (1932) argue that in developed economies ownership has become more dispersed in such economies, such as the USA and UK, the common law ensures the rights of minority shareholders (Mallin, 2007), this encourages investors to participate in markets with investor protection mandates, whereas investors are discouraged in investing in markets characterised by weak protection of minority shareholders which is the case in many developing markets (La Porta, 2000). Thus, the kind of laws adopted within a country influences the level of investor protection which either encourages investors to invest and as a result a more dispersed ownership be established, or on the other hand the laws adopted by a country have a low level of investor protection, such as the French civil law, discouraging investors from investing and therefore have higher concentration of ownership with family or controlling shareholders. La Porta et al. (1997) found that there is a relationship between the legal system of a country and the level of investor protection. The authors found that the legal system adopted in a country determined the level of investor protection; French civil

[28] Many have criticized La Porta et al., (1998) framework as it only partially explains the influence on the corporate governance systems, the influence of colonialism, democracy, judicial practices and sociocultural factors are all part in reflecting the level of investor protection (Shleifer, 2002; Roe, 2003; Beck et al., 2003; Licht et al., 2005)

law was the weakest in terms of investor protection, the common law countries adopted mostly in the US and UK, offered stronger protection for investors; German and Scandinavian law countries are situated between the two. Saudi Arabia has adopted French civil law (Koraytem, 2000; Sourial, 2004). Thus, it would be expected to have weak form of investor protection. Companies in countries with weak legal forms try to compensate for the weak legal environment by adopting strong corporate governance practices (Klapper and Love, 2004).

Aguilera and Cuervo-Cazurra (2009) study the adoption of corporate governance codes worldwide. The authors found that most countries that adopt common law as their legal framework have issued corporate governance codes and were earlier adopters of corporate governance codes contrary to other countries that have a civil law framework. They also indicate that countries that have more developed markets have issued more corporate governance regulations, arguing that capital market maturity stage is an important element in influencing the number of corporate governance codes developed.

Zattoni and Cuoma (2008) investigate the corporate governance codes of sixty countries, classifying them according to their legal system (common law/civil law). The authors found that corporate governance codes in countries that are classified as civil law countries have weaker recommendations than common law countries. They also differ in scope, coverage and the strictness of the recommendations, while civil law countries adopted corporate governance codes later than common law countries, and offer more lenient recommendations. Common law countries' corporate governance codes focus on board structure and evaluation of board members, while codes in countries with a civil law focused on shareholder rights, employee role and conflicts of interest, concluding that civil law countries issue corporate governance codes for legitimacy reasons rather than to improve governance practices. The next section discusses ownership structure.

3.4.2 Ownership Structure

Shleifer and Vishny (1997) argue that the concentration of ownership plays a major role in shaping corporate governance. There are two types of corporate governance model based on the type of ownership, the insider model and the outsider model (Short et al., 1998). The outsider model is when the ownership of listed companies is dispersed through many investors (Mallin, 2007), such as in the US and UK (Short et al., 1998) with a wide separation between ownership and management (Denis and McConnell, 2003; Solomon et al., 2002). In such a system, institutional investors, mutual funds and banks play an important role (Maher and Andersson, 2000). The insider model is where ownership and voting power in listed companies are concentrated within the hands of major shareholders, as families and controlling shareholders who are bounded by a close relationship with the firm (Maher and Andersson, 2000; Solomon, 2007). A small role is played by institutional investors, mutual funds and banks in the insider model (Maher and Andersson, 2000). Many mainland European countries and various Asian and MENA (Middle East and North Africa) countries are regarded as having an insider model (Bhasa, 2004; Claessens et al., 2000; Sourial, 2004); this type of ownership is predominant in most countries around the world (La Porta et al., 1998, Maher and Andersson, 2000).

Within the insider model of governance there is less separation between ownership and control, but a problem arises with the possible abuse of power by controlling shareholders at the expense of minority shareholders (Berglof and Pajuste, 2003; Young et al., 2008). Capital markets of countries with an insider model are usually less developed than those of the outsider model (Maher and Andersson, 2000; Coffee, 2002). Advantages of the insider model are that it is not driven by the short-term demands of the market, and the concentration of ownership encourages long-term investment[29] (Maher and Andersson, 2000; Claessens and Fan, 2002; Solomon, 2007; Mallin 2007). The chapter now focuses on the context of emerging markets which reflects the insider model.

3.5 Corporate Governance in Emerging Markets

Corporate governance codes have been widely adopted in both developed and developing countries (Aguilera and Cuervo-Cazurra, 2009; Triker, 2009; Enrione et al, 2006; Wright et al., 2005; Aoki, 2001). Many developing countries have established codes of corporate governance for economic development as means to attract and retain investments from other countries, or as discussed earlier to compensate on the weak level of investor protections, reducing the probability of financial scandals and increase legitimacy (Aguilera and Cuervo-Cazurra, 2004; 2009). However, corporate governance codes remains at an earlier stage in developing countries, as the level of transparency in some developing countries, such as Asia, is relatively low (Claessens et al. 2000; Claessens and Fan, 2002). Corporate governance reform started to take place within emerging economies after the Asian financial crisis in 1997 to retain and attract foreign investment, recognizing the importance of 'good' corporate governance (Solomon et al., 2003). The Asian financial crisis has contributed to the liberalization of markets but with weak level of economic and legal institutions and corporate governance systems (Millar et al., 2005). This raised many questions regarding the

[29] A more detailed disruption on the characteristics of companies within the insider model is discussed in Kester (1992).

adequacy of the corporate governance frameworks in Asia which resulted in governance reform in the region. Although the impact of the crisis was less on companies with ‘good’ governance structures (Bae et al., 2012).

Other developing countries have issued corporate governance codes or are in the stage of issuing these because of; internally driven reforms; in response to international demands; and to attract foreign investment (Aguilera, 2005; Mallin, 2007; Solomon, 2007; Young et al. 2008). Japan issued a code in 1997, India and Korea issued their corporate governance codes in 1999, and Malaysia in 2000, while Indonesia followed in 2001 (Maassen et al., 2004). However, the functioning of the corporate governance mechanisms in developing countries may be less effective than in developed countries (Young et al. 2008). In the developing stage of a country, the legal framework and ownership structure have an effect on the corporate governance system that the country adopts. For example, in the case of ownership structure, La Porta et al. (1999), in their study of 27 countries, including 14 emerging countries, conclude that most of these countries have a concentrated ownership structure. This concentration of ownership is often in the hands of the state, financial institutions and families. Claessens et al. (2000) conclude that the ownership structure in East Asian countries is mostly concentrated in family pyramidal structures. They present evidence of single families owning nearly 16-17% of the value of all listed companies assets in Indonesia and the Philippines respectively. In addition, there is a relationship between the legal framework of a country and its ability to attract finance (La Porta et al., 1998; Solomon et al., 2003), although the concentration of ownership within families and large shareholders may result in the poor protection of the minority shareholders. Peng and Jiang (2010) empirically investigated how ownership concentration influences shareholders’ protection within family controlled companies in seven Asian countries.

The authors conclude that the institutional context of emerging economies in Asia offers weak protection for minority shareholders and that a strong legal and regulatory institutional framework in Asian countries contributes to a better protection of minority shareholders', this may result in reducing the ability of family controlled companies to expropriate minority shareholders. Table 3.1 gives a comparison between emerging countries that adopt civil and common laws. The table shows that emerging countries which have adopted common law as their legal origin have better legal right, credit rights and protection of minority shareholders compared to emerging countries that adopt the civil law as their legal origin.

Table 3.1 Comparison of Emerging Countries Civil and Common Laws

Legal origin	Number of emerging countries	Legal rights strength index (avg)	Creditor rights index (avg)	Legal protection of minority shareholders index (avg)
Civil Law	22	3.7	1.5	37.3
Common Law	15	7.6	2.5	62.1

Note: the table shows a comparison between emerging countries that adopt civil versus common law in terms of how common law countries outperform emerging countries with regards to their legal rights, creditor rights and legal protection of minority shareholders. (Adopted from Claessens and Yurtoglu, 2013, table1b).

Solomon et al. (2003) describe the environment of corporate governance in Taiwan as similar to that of the German model, with a dual board structure and a balance between the number of outside and inside directors. They find that corporate governance in Taiwan is influenced by: (i) company law; and (ii) the listing requirements of the Taiwanese stock exchange.

South Korea`s Corporate governance model can also be characterized as having an insider model (Claessens et al., 2000), with no separation between ownership and management. Some might argue the advantages of the insider model, such as the absence of the agency problem; and a lack of short-termism (Solomon et al., 2002).

In Central and Eastern Europe, Poland, the Czech Republic and Hungary are emerging economies that have implemented corporate governance systems. Before the privatization act in Poland in 1990, Poland had a system of supervision for state owned enterprises. After privatization, Poland introduced reforms that had some attributes of the German model, such as the supervisory boards and the legal right to employee representation on the supervisory board (Koladkiewicz, 2001). The change to a German model of corporate governance in Poland might be because of the political view of the supervision system that Poland held prior to the privatization (Koladkiewicz, 2001). However, these three countries have chosen different methods of privatization, Mallin (2000) argues that this may lead to different distributions of share ownership, and to different kinds of corporate governance. The author also takes into account the role of banks and financial institutions in this process, and the fact that the policy makers' concerns in the post-privatization of these countries lies in assessing the long term feasibility of two alternatives: a bank based financial system; and a stock market based financial system.

Wanyama et al. (2009) conducted a study to examine the corporate governance framework in Uganda, a developing country. They find that corporate governance mechanisms are in place in Uganda, but that these are far from effective. They explain that the role of institutions in the Ugandan context, is one of the drivers that holds back the way in which corporate governance mechanisms are implemented. They conclude that Ugandan institutions are not yet able to support a framework for 'good' governance.

Siddiqui (2010) investigates the adoption of corporate governance in another developing country, Bangladesh. The author found that corporate governance in Bangladesh has adopted an Anglo-Saxon model to the local context as a result of the need for legitimacy, although the present institutional context of Bangladesh does not support the Anglo-Saxon corporate governance approach adopted in the country, while the author concludes that other factors suggest that an adoption of a stakeholder model would be more suitable. The next section will discuss corporate governance in the MENA region

3.5.1 Corporate Governance in the MENA Region

Some MENA (Middle East and North Africa) countries are heavily dependent on oil production, such as in the Gulf countries (Sourial, 2004).[30] Many countries in the MENA region showed little interest and little adoption of corporate governance (McGee, 2009) with only two countries in the region having corporate governance codes issued prior to 2006, Oman in 2002 and Egypt in 2005 (Koldertsova, 2010). After market crashes in 2006 many countries in the region issued corporate governance code on a 'comply or explain' basis as that adopted in the UK (OECD, 2012). Issuing corporate governance codes was a step in governance reform in the region; governance codes had been issued specifically for the banking sectors, state owned enterprises and family owned firms (OECD, 2012; Koldertsova, 2010; SAMA, 2009). Countries in the region have also embarked on developing corporate governance institutions such as the institute of directors in Egypt and Hawkamah institute in United Arab Emirates (OECD, 2010; Sourial, 2004).

[30] The World Bank classifies MENA countries as: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, Yemen, Israel.

El mahdi (2007) examines corporate governance in Tunis, finding that two factors influence Tunisian corporate governance: company law and the listing requirements with which all listed firms must comply. The author found that ownership concentration is high in Tunisian firms, stating that families and the state own nearly 25% and 23% of the listed firms respectively. He concludes that companies' adoption of corporate governance in Tunisia is weak, attributing this weakness to the association found between concentrated ownership and performance, and the limited role of law and regulations (El Mahdi, 2007).

Filatotchev et al. (2012) highlight the need to understand how institutions vary in different countries and their influence on the corporate governance framework within these countries. The authors point out the importance of understanding the factors that influence board effectiveness within different institutional contexts, arguing that the effectiveness of governance practices does not emerge from adopting similar practices to other countries but is a result of institutional factors that can improve (or damage) the internal governance practices of organisations.

Hussain and Mallin (2003) investigate corporate governance in Bahrain, a Gulf country in the Middle East. While Bahrain at that time had not developed a corporate governance code,[31] listed companies have a certain number of corporate governance rules in the country's company law, such as: the board of directors; separation between the role of CEO and chairman; and adopting an audit committee. Hussain and Mallin (2003) also found that companies have not established a nomination committee, while directors are elected by the major shareholders. They also found that non-executive

[31] Bahrain developed a corporate governance code in 2010

directors (NED) form the majority on the boards of listed companies, which is regarded as ‘best practice’ in corporate governance internationally.

Piesse et al. (2012) investigate ownership structure and its influence on corporate governance in Saudi Arabia and Egypt. Their findings indicate that, in both countries’ foreign investors, the state and large families are dominant shareholders of listed companies, having the most influence over the nomination and election of board members. The authors point out the low level of governance disclosure, arguing that such weak disclosure is due to the weak attitude towards transparency and the general cultural norm of corporate secrecy which will be examined further in this thesis.

After discussing a variety of corporate governance issues in both developed and developing countries, the chapter now will discuss the relevant literature on some of the main corporate governance mechanisms.

3.6 Corporate governance Mechanisms

3.6.1 The Board of Directors:

The board of directors is one of the main corporate governance mechanisms that is the focus of this thesis (Pettigrew and McNulty, 1995; Garratt, 1997). Berle and Means (1932) argue that corporations are run by managers that have no ownership in the company. Thus, the board should make sure that management are pursuing the company’s interests rather than their own. Mintzberg (1983) notes that the board role consists of seven main roles: selecting the Chief Executive Officer (CEO), which is regarded as the most important role (Carver, 1990; 1999; Cadbury, 2002); exercising control during a crisis; reviewing the managerial decisions and performance; obtaining external influences; establishing contacts for the organization; enhancing the organization's reputation; and giving advice to the organization. Cadbury (2002) also includes these aspects as the board's role but adds that the board should assess its own performance which would result in strengthening its role in future decisions. Mallin (2007) argues:

> "The board of directors leads and controls the company and hence an effective board is fundamental for success of the company. The board is the link between managers and investors and is essential to good corporate governance and investor relations" (Mallin, 2007, p.124)

Stiles and Taylor (2001) argue that the legal context only allows the board of directors to review and monitor the strategy of the firm and they have no role in formulating strategy. On the other hand, Fama and Jensen (1983) offer an agency theory view of the role of boards, arguing that its role is to reduce the agency costs resulting from the delegation of the strategic decision making to the top executives by exercising decision controls which involve monitoring the managerial decision making and performance.

Previous research on the board of directors has focused on board structure and board characteristics, such as the presence of NED's, CEO duality and directors' shareholding (Stiles and Taylor 2001). Pettigrew (1992, p.177) states:

> 'The study of boards and their directors has not been helped by over ambitious attempts to link independent variables such as board composition to outcome variables such as board and firm performance…. The task is … to provide some basic descriptive findings about boards and their directors'.

Research on board characteristics is important; however, a condition of board effectiveness is the behaviour of board members determines board effectiveness (Roberts et al. 2005) as the success or failure of a company relies on the individuals on the board of directors, as noted in the French Bouton report

> 'Although procedural rules and recommendations concerning the operation of the board and its committees are essential corporate governance standards, any procedure will only be as good as the people implementing it'. (Bouton, 2002. p.6)

The board of directors usually focuses on three main objectives: the strategic role, such as the formulation of goals and the allocation of resources; the control role, such as monitoring the management and their performance; and the service role of giving advice to the top management team (Zahra and Pearce, 1989; Jonson et al., 1996; Forbs and Milliken, 1999).

3.6.2 Board Structure

There are two kinds of structure for boards of directors: the unitary board, which is popular in the USA, UK and most of the Middle East and North African countries (MENA) including KSA (Falgi, 2009); and the dual board, which is popular in Germany, Austria, Denmark, Japan and other EU countries (Mallin, 2007; World Bank, 2009). The unitary board is composed of both executive and part-time, non-executive directors (NEDs). On these boards, there is often a close relationship between the executives and NEDs that can be of benefit regarding the flow of information between them (Mallin, 2007).[32]

3.6.3 Board Composition

Corporate governance codes emphasise having a balance between executive directors (EDs) and NEDs or having a majority of NEDs on the board, as this composition

[32] The dual system is composed of an executive board which is in charge of running a company's day to day business, while the supervisory board is composed of non-executive directors whose role is to keeps an eye on the executive board. Mallin (2007) argues that an advantage of the dual system is that the separation between management and non-executive directors produces a distinct and formal relationship. Most European Countries that adopt a dual board structure have employee representatives on their supervisory board, as required by the legal regulations.

suggests the better functioning of the role of the board of directors as a governing body (Lorsch and MacIver, 1989; Zahra and Pearce, 1989; Cadbury, 1992; SOA, 2002; OECD, 2004; CMA, 2006; FRC, 2010). Having a board which is diverse enhances board performance through their objectivity, ability to give independent judgment and asking questions that executive directors might not consider asking (Zahra and Pearce, 1989; Ahmed et al., 2006). This results in generating a range of different perceptions that could benefit the board in the decision making process (Minichilli et al., 2009). However, there should also be a level of understanding between NEDs and executive directors on the board (Roberts et al, 2005). Research on board composition has been shown to be equivocal (Baysinger and Hoskisson, 1990; Hermalin and Weisbach, 1991; Dalton et al,. 1998; Bhagat and Black, 1999). One of the reasons for this equivocality might be because researchers have focused on the use of quantitative methods when examining boards of directors, a result in them being far from actual board practices because of the difficulties in obtaining access to board members (Pettigrew, 1992; Roberts, 2002). Thus, board composition may vary from firm to firm, depending on the circumstances of the firm, as each individual firm, within its context, should gain over time the optimum composition of its board structure. This study fills this gap by obtaining access to board members.

3.6.4 Independent Non-Executive Directors (INEDs)

The presence of INEDs on the board is one of the main corporate governance mechanisms as boards that are more independent from management are less influenced by management in the decision making and resulting in better monitoring (Cadbury, 1992; Bhaget and Bolton, 2008). Indeed, some boards recruit NEDs to increase the firm’s legitimacy in the eyes of the stakeholders (Johnson et al., 1996; Zahra and

Pearce, 1989). In the UK, the Cadbury Report (1992) emphasizes having NEDs on the board and on board committees. The Tyson Report (2003) gives insights about selecting NEDs from a broad range of people in society. The report states that NEDs should provide advice to company management; and monitor management; monitor the company's ethical and legal performance and; assume responsibility for appointing and removing the senior management (Tyson, 2003).

The function of independent directors has been the focus of ongoing empirical work in developed -and developing- countries (Baysinger and Butler, 1985; Dalton et al., 1998 Staikouras et al., 2007; Lefort and Urzúa, 2008; Chen and Nowland, 2010; Ramdani and Witteloostuijn, 2010; Lappalainen and Niskanen, 2012). A high percentage of independent directors on boards results in better board monitoring and transparency (Chen and Jaggi, 2000; Gul and Leung, 2004). INEDs function may be reduced when boards are larger and the literature recommends a board size of between seven and nine board members (Lipton and Lorsch, 1992; Jensen, 1993) this is because, on large boards, outside directors might face difficulties in expressing their opinions, which might affect the decisions made at board level (Lipton and Lorsch, 1992; Jensen, 1993). Although the influence of independent directors presence on company boards is inconsistent and continually debated in the governance literature. This indicates that there is no casual relation between independent directors and performance. Any relationship that appears within the governance variables and company performance are bonded by the specific context and given time in which such a relation occurs (Bhagat et al., 2008). The next section will discuss board committees.

3.6.5 Board Committees

In order for the governance structure of a board to be effective some board responsibilities are delegated to board committees (Vafeas, 1999; Solomon, 2007; 2010;). The main board committees suggested in the governance literature are the audit committee; nomination committee; and remuneration committee (Lorsch and MacIver, 1989; Brown et al,. 2011). The importance of board committees in governance is that they help to enhance board accountability and maintain independent oversight over board activities (Harrison, 1987). In regards to the audit committee's role, the Smith review (2003) states that audit committees should ensure that financial reports and internal control are functioning properly, while also reviewing the external auditors' work on a company's financial position by ensuring the independence of the external auditors (Mallin, 2007). The Smith review also suggests that all members of the audit committee should be INEDs (Smith, 2003). The remuneration committee should also be composed of INEDs. The Greenbury Report (1995) focused on executive remuneration, stating that remuneration committees need to:

> "Determine pay packages needed to attract, retain and motivate directors of the quality required but should avoid paying more than is necessary for this purpose" (p.201).

Although the existence of board sub committees varies across countries. Carson (2002) studies the factors that influence the adoption of board committees in Australia, finding that the big six audit firms and directors with multiple directorships influence the adoption of audit and remuneration committees when these committees are voluntary, although she finds no relationship between board composition and the existence of board committees.

Many corporate governance codes highlight the importance of the role of NEDs on board committees, as executive board members might not be able to give independent judgment that would put at risk the role of these committees. The next section discusses the audit committee.

3.6.6 The Audit Committee

The importance of establishing an audit committee was driven by corporate collapses worldwide (Spira, 1999) and is an important board subcommittee for its role in giving oversight and monitoring of a company (Mallin, 2007). The Treedway commission in the US was the first to publish the roles and responsibilities of the audit committee, in 1987, while the Blue Ribbon report followed in 1999, which was a result of an evaluation of the audit committee practices in the US at that time, to improve audit committee practices as a main corporate governance mechanism (Millstein, 1999; Reinstein and Luecke, 2001). The Smith Report, published in 2003 in the UK, focused on audit committee effectiveness, giving attention to its role in internal control and the relationship with the external auditor. More recently the UK’s Corporate Governance Code 2012 requires that audit committees should inform shareholders on how they carry out their roles.

Collier (1993. p.26) found that a number of factors have influenced listed companies in the UK to adopt audit committees, these being: good corporate practice; strengthening the role and effectiveness of non-executive directors; assisting directors in discharging their statutory responsibilities with regard to financial reporting; preserving and enhancing the independence of internal and external auditors; improving communications between the board and internal auditors; assisting auditors in the reporting serious deficiencies in the control environment; and improving communications between the board and the external auditors.

Studies in other countries have identified factors associated with the formation of audit committees, such as Willekens et al (2004) who found the proportion of INEDs on the board correlated with the formation of audit committees in Belgian companies.

The effectiveness of audit committees has been argued to be related to the financial literacy of their members. Buckby et al. (1994) investigate the relationship between audit committee composition and its effectiveness, concluding that the presence of independent directors; their financial literacy; and the provision of training to members are important factors in determining their effectiveness.

Other studies also emphasize audit committee independence and effectiveness. Beasley and Salterio (2001) conclude that companies in Canada that have voluntarily established audit committees have more outside directors on their boards who have accounting and financial reporting knowledge and experience. Abbott and Parker (2000) investigate whether audit committee composition is related to the choice of external auditor. The results indicate that companies that have active and independent audit committees as measured by the proportion of independent directors on the audit committee are more likely to have an industry specialist external auditor.

Raghunandan et al. (2001) investigate the relationship between the independence of audit committees and their relationship with the internal auditors, concluding that audit committees that are composed solely of independent directors are more likely to be engaged with the internal audit department and its activities.

All of the previous studies illustrate the importance of having independent board members on audit committees and how it reflects on other important governance issues within these companies. However, studies on the institutional context in which audit committees operate and what environmental factors may influences audit committees have been neglected (Turley and Zaman, 2004). This study will try to answer this call and fill the gap in the literature on the institutional factors that influence audit committees. The next section will discuss the nomination committee.

3.6.7 Nomination Committees and the Selection of Board Members

Corporate governance codes have stressed the establishment of nomination committees by boards in order to select and recommend directors to the board. Eminet and Guedri (2010) show that the role of this committee is to "define the profiles of directors needed on the board and to suggest future director candidates" (p. 558) but few studies within the academic literature have given attention to nomination committees (Vafeas, 1999; Ruigrok et al., 2006; Eminet and Guedri, 2010; Kaczmarek et al., 2012), possibly because of the many financial scandals that have lead research in corporate governance to focus on other areas and little is actually known about how directors are nominated (Pettigrew, 1992). The establishment of a nomination committee may be used as a way to reduce the influence of CEOs and chairman on board member selection. The literature indicates that the nomination of directors is influenced by the CEO in the west (Mace, 1971; Lorsch and MacIver, 1989; Jensen, 1993; Shivdasani and Yermack, 1999; Monks and Minow, 2004), therefore having a separate committee to deal with board nominations may reduce the influence of CEOs on the nomination process, especially when such committee is composed of outside directors (Lorsch and MacIver, 1989; Vafeas, 1999).

The importance of nomination committees for corporate governance is to ensure that qualified candidates are elected to the board with diversified backgrounds to improve board quality (Vafeas, 1999). Vafeas (1999) concludes that for US firms, firms that have established nomination committees have of a majority of outside directors who hold other directorships

Ruigrok et al. (2006) study nomination committees in Swiss listed companies, and conclude that an increase in the number of INEDs on the board increases the likelihood of having a nomination committee, as well as having foreign directors on the board. They also conclude that when companies have a concentration of ownership it is unlikely that a company will establish a nomination committee, as it may decrease large shareholders' influence on the selection process of board members.

From the above discussion a nomination committee is a complement as a governance tool when ownership is dispersed and is a substitute when large family shareholders are present on the board (Bhagat et al., 2008) therefore, such committees may be less relevant in the context of companies with controlling owners on the board such as in the context of family or government controlled companies, such as that in KSA, while it would be more effective in dispersed owned companies as governance mechanism would help to ensure that management are less involved in the selection of directors. The next section discusses the separation of the roles of CEO and chairmen as another corporate governance mechanism.

3.6.8 CEO Duality

CEO duality refers to the leadership structure of a firm whereby the CEO is also the chairman of the board. Separating these two roles increase board independence especially when monitoring the role of managers, while also having independent judgment (Rechner and Dalton, 1991), although CEO duality maintains clear leadership and unity of command for decision making (Donaldson and Davis, 1991). Many corporate governance codes state that the role of the chairman should be separate from that of the CEO (Cadbury, 1992; OECD, 1999; KSA, 2006; Kings 2009) as an independent chairman can add more balance and independence to the decision making of the board of directors (Stile and Taylor, 1993; Solomon, 2007). A chairman should bring valuable knowledge and experience and prevent any one individual from having too much power and allowing responsibility to be shared, and enhancing the board's corporate strategy (Lawler and Finegold, 2005). The empirical evidence shows a positive reaction of share price when the two roles are separated while reacting negatively when the two roles are combined (Dahya et al., 1996). CEO duality might affect the board's judgment in supervising and evaluating the top management (Carver, 1990; Cadbury, 2002) and has been viewed as a factor in corporate collapses in the UK (Argenti and Argenti, 1976). In the US, these two roles tend to be combined, and in 2002, 66 percent of the top listed US firms had a CEO who was also the chairman (Roberts, 2002). For example, Herzel and Shepro (1990) illustrate CEO duality in the US by stating that:

> "The CEO would probably be the chairman of the meeting and completely in charge. Generally, he controls both the agenda and the flow of information to the directors. He dominates the meeting and the board plays a quite secondary role".

Although CEO duality tends to be the case in the US, Lipton and Lorsch (1992) point out that when boards have CEO duality, the CEO/Chairman should consult the leading outside director on issues concerning: the selection of board committee members and chairpersons; the board's meeting agendas; the adequacy of the information that the directors receive; and the effectiveness of the board meeting process (p.70). As such, in the case of CEO duality, many codes emphasise establishing the role of a senior independent director to whom the other board members can address any issues relating to the CEO/chairman (Cadbury, 2002; OECD, 2004; Combined code, 2008,) or other issues related to the chairman when no CEO duality occurs (Cadbury, 2002).

Although the literature on the relationship between separating the role of CEO and chairmen remains inconclusive, corporate governance codes issuers regard splitting the two roles as a sign of good governance, achieving independent leadership from management, and allowing the board to exercise its monitoring role.

An important contribution of this thesis is to investigate the factors that take part in shaping the governance structure within the organisational field of KSA listed companies. Having discussed the main corporate governance issues related to board structure, the chapter will now turn to other governance mechanisms.

3.6.9 Cumulative Voting

Corporate governance codes worldwide give emphasis to the use of cumulative voting when voting on the selection of directors at AGMs (Campbell, 1955) whereby cumulative voting gives each share one vote, multiplied by the number of directors elected. If a shareholder has one share and there are seven directorships positions to vote on, this share gets seven votes, the shareholder is then free to either cast all votes to a single candidate to increase the chances of the candidate's nomination or divide them between two or more candidates (Bhagat and Brickley, 1984).

The US SEC (Secretary and Exchange Commission) illustrates the use of cumulative voting in contrast to the regular voting method:

> 'For example, if the election is for four directors and you hold 500 shares (with one vote per share), under the regular method you could vote a maximum of 500 shares for any one candidate (giving you 2,000 votes total - 500 votes per each of the four candidates). With cumulative voting, you could choose to vote all 2,000 votes for one candidate, 1,000 each to two candidates, or otherwise divide your votes whichever way you wanted.'

The use of cumulative voting is a helpful governance mechanism, as this may help to reduce the expropriation of minority shareholders by controlling shareholders especially in emerging countries with highly concentrated ownership (Berglof and Pajuste, 2003).Cumulative voting is argued to enhance company performance. This is achieved as minority representation on the board will help in increasing the number of outside directors on to the board and result in better managed firms (Bhagat and Brickley, 1984).

Companies may reduce the possibility of having minority representation on the board by amending the company's charter to not include cumulative voting. Another method that might be used is by reducing the numbers of directors elected through classification of the type of directorships, and only one type of directorship is elected each year (Bhagat and Brickley, 1984).

3.6.10 Board Directorship

The literature indicates that people join boards of directors for many reasons, such as utilizing their competence, seeking status and engaging in actor networks, as an opportunity to learn, or to seek personal benefits (Mace, 1971; Lorsch and MacIver, 1989). Joining a board might be time consuming which makes individuals think about whether they have the time to serve as a board member[33]. Mace (1971) argued that in order for directors to devote enough time and effort companies should make sure that they compensate directors in an appropriate manner; if directors are under paid this may result in them doing very little.

A consideration to be taken when accepting board membership is any conflict of interest with other directorships. The compensation of a board directorship might give individuals more incentive to gain more directorships, and this may result in weakening the performance and monitoring ability of such directors (Maher and Andersson, 2000) Table 3.3 gives a brief description of some of the reasons for joining and refusing to join boards of directors.

Table 3.2 Reasons for Joining or Refusing Board Memberships

Joining a board	Refusing board memberships
Quality of top management	Lack of time
Learning opportunity	Meeting conflicts
Prestige of the firm	Conflict of interest
Personal prestige	Not having a useful role
Compensation	

Source: adapted from Mace (1971) and Lorsch and MacIver (1989) tables 2.2 and 2.3.

[33] The average time devoted for a board membership is half a month per year per board (Lorsch and Maclver, 1989)

3.6.11 The Concept of Whistle Blowing

The rise of corporate scandals, such as Enron, across the world raised the issue of the role of employees when wrongdoing occurs and the protection of whistle blowers (Lewis, 2008). The literature on whistle blowing shows that the attitudes and behaviour towards whistle blowing are influenced by culture and society (Ahmed et al., 2003; Trongmateerut and Sweeney, 2013).

Seifert et al. (2010) study whistle blowing among a sample of 447 internal auditors and management accountants in the US, concluding that, when organizations introduce clear policies and procedures for whistle blowing, more employees are likely to exercise this right, although they point out that having policies and procedures in place for whistle blowing does not ensure that actual practice will change.

Park et al. (2008) explore whistle blowing in three different nations: South Korea, Turkey and the UK. They conclude that different nations perceive whistle blowing differently, which influences them with regard to practicing this governance mechanism. They find that, in South Korea, anonymity towards whistle-blowers is strong, while relatively weak in the UK and Turkey, arguing that in a setting such as South Korea, a more anonymous channel of communication is a more effective method of implementation.

Trongmeteerut and Sweeny (2012) compare whistle blowing in the US and Thailand. They argue that, in both countries, individuals have different attitudes towards whistle blowing, suggesting that introducing whistle blowing in a non-western culture should take into account the social norms and attitudes towards whistle blowing, and conclude that the social norms and attitudes related to this activity should be considered before such regulations are implemented. Thus, an understanding of the social and cultural context of a country, such as KSA where there is a high emphasis on tribal and cultural values (Muna, 1979; El Mallakh, 1982; Al-Ghathami, 2009) is necessary in order to know how to implement whistle blowing effectively.

3.7 Corporate Governance in KSA

A review of the literature shows that few studies have been carried out on corporate governance in Saudi Arabia. One of the earliest attempts to investigate the nature of corporate governance in Saudi Arabia was done by Al-Harkan (2005). At the time of the study no corporate governance code existed, and he found that large Saudi Arabian complains, especially banks, had adopted some corporate governance practices, such as separating the role of the CEO and the Chairman and having at least three NEDs who are independent of the management on the board. His results also showed that the two most important factors in nominating NEDs were relevant business skills and professional qualifications, concluding that the introduction of a corporate governance code would enhance the disclosure and transparency of companies with regard to corporate governance issues. While the study also found two main factors that hindered the development of corporate governance in Saudi Arabia were; the lack of systems and procedures that governs companies; and the lack of emphasis on values and principles.

Al-Ajlan (2005) investigated the roles and responsibilities of the board of directors in the banking sector. In 2005, only 10 banks operated in Saudi Arabia, one of which was government-owned. The author conducted interviews with directors and board members in order to understand the strategic and monitoring role that boards play in the banking sector. The researcher found that boards in the banking sector have a significant role to play in setting the strategic aims of the company but that large shareholders influenced the setting of the strategies. He concludes that there are differences among board members in terms of how they view the strategic role of the board, although the general perception is that boards are involved in strategy formulation with the help of the top management team, even though different banks had different ownership structures. Hence concentrated ownership and the ownership structure is an important feature with KSA firms.

Falgi (2009) is the first study to examine corporate governance after the introduction of the corporate governance code in Saudi Arabia, looking at the perceptions of different stakeholder groups and their evaluation of corporate governance practices by using semi-structured interviews and questionnaires.

The author found that there is a lack of awareness about corporate governance within Saudi society even at board level, and such a finding is worrying when attempts are being made to implement a governance code when board members know nothing about it. He found that stakeholders view corporate governance from a very narrow agency perspective, and that such a narrow view reduces the amount of accountability exercised by companies towards society and other stakeholders; he posits that the only recognised accountability relationship that exists is that between management and the board of directors.

Falgi also indicated that there is no real independence of directors due to the weak requirements for an independent board member and the cultural influences within the nomination process. He also indicates to several factors in the governance framework such as: weak regulation and monitoring; lack of experienced members; inadequate time that members contribute; poor compliance by companies to the corporate governance requirements; and the lack of independence. Although the CMA (Capital Market Authority) issued the code in 2006 on a 'comply or explain' basis, the author suggested that the code should be mandatory.

Al-Motaz and Al-Husseny (2012) also investigate the relationship between company characteristics and the level of corporate governance disclosure by Saudi listed companies during the period 2006 and 2007. The authors conclude that there is a negative association between board independence and corporate governance disclosure, while also finding a significant positive association between audit committee size, liquidity and gearing with the level of corporate governance disclosure. They also find an association between firm size and corporate governance disclosure; however this relationship was not statistically significant. Al-Motaz and Al-Husseny also found a negative association between the number of INEDs and corporate governance disclosure practices, indicating that Independent directors might not actually be Independent.

3.8 Summary

This chapter reviews the literature on corporate governance in general and in emerging markets in particular, while also pointing to a country's movement to adopt corporate governance codes. This chapter also examined corporate governance models, the board of directors' roles and responsibilities, board structure, directors' independence and the role and structure of board committees.

A different approach to understand corporate governance and the board of directors is taken in this thesis that uses different theoretical assumptions from those that have been used in most previous studies which look upon governance narrowly rather than from the social and cultural framework of a country's context, which this study undertakes, leading to an understanding of corporate governance mechanisms in relation to the external environment.[34] The next chapter will discuss the theoretical framework adopted in this thesis.

[34] Hofstede's cultural dimension has also been used in examining business and cultures but the focus here is on the Organisational field of Saudi listed companies. Other theoretical frameworks, such as agency theory, have also been used in the governance literature; these will be discussed in the next chapter.

Chapter four: Theoretical Framework

4.1 Introduction

This study aims to investigate the factors that influence corporate governance practices among the organisational field of KSA-listed companies. The previous chapter discussed the relevant literature on corporate governance, including issues relating to the board of directors, and argued that more research of a qualitative nature is needed. The current chapter discusses the theoretical framework adopted to interpret the research findings. New institutional sociology is shown to be the theoretical framework adopted in order to answer the questions such as: which institutional factors influence corporate governance practices of KSA-listed companies? The next section gives a brief outline of the notion on theoretical framework and illustrates the different theoretical frameworks that researchers have used in corporate governance. Section 4.3 then discusses in detail the theoretical framework selected for this study and outlines why this theory is considered to be the most appropriate research lens. Section 4.4 summarises and concludes.

4.2 Theoretical Frameworks within Corporate Governance

There is no single agreed upon definition of theory. Sutherland (1975) defines a theory as:

> "An ordered set of assertions about a generic behaviour or structure assumed to hold throughout a significantly broad range of specific instances." (p.9).

Also Chambers (1992) defines theory as:

> "a theory is a well ordered set of statements about classes of things and classes of events which are in some way connected in our experience of them." (p. 138).

From these and other definitions of theory, it is evident that the main roles of a theory are; (i) to provide a framework of analyses and reference; (ii) to provide a clear explanation of the way we see the world; and (iii) to provide an effective basis for developing understanding and expanding knowledge of observed phenomenal.

A theory is a way to look at a certain phenomenon from a particular point of view with specific boundaries that are set and justified, these boundaries are important if meaningful answers to research questions are to be derived from empirical observations (Hall and Lindzey, 1978). One of the main functions of a theory is to prevent the observer from being removed from the inherent complexity of the natural world; a theory as a set of lenses, guides an observer to avoid having to focus on all observed events (Hall and Lindzey, 1978).

Corporate governance has recently been a subject of academic debate in several disciplines, including, law, economics, finance, accounting, management and organisational behaviour, and these have helped with the development of a theoretical underpinning (Mallin, 2007). Within these disciplines, corporate governance has been examined using a range of different theoretical lenses in order to explain and analyse various corporate governance issues (Solomon, 2010). However, one of the theories which have had the strongest impact on the development of corporate governance thinking is agency theory (Clarke, 2004; Solomon, 2007; 2010; Tricker, 2009; Mallin, 2010). A significant amount of the literature on corporate governance has incorporated agency theory by looking at corporate governance mechanisms and their relationships to performance, an approach that seems to be influenced by the Anglo-Saxon approach to corporate governance (Clarke, 2004; Brennan and Solomon, 2008). This line of research started with the work of Jensen and Meckling (1976) and Fama and Jensen (1983) with the problems which arise from the separation between ownership and control (Berle and Means, 1932). Agency theory argues that the “agent” (i.e. managers) who work on behalf of the “principal” (i.e. the owner) are opportunistic and may not act in the best interest of the latter, as the principal cannot monitor all decisions made by the agent on his/her behalf. Therefore monitoring and control costs need to be introduced in order to align the interests of the agent and principles together, while ensuring that agents do not misuses the principal’s assets (Jensen and Meckling, 1979; Fama and Jensen, 1983). However, researchers using agency theory have often looked at corporate governance in very narrow terms, focusing on the relationship between governance structure and financial performance (Shleifer and Vishny, 1997; Rubach and Sebora, 1998). This trend has led many governance studies to overlook socio-cultural influences on corporate governance by focusing only on the relationship between management and shareholders (Eisenhardt, 1989; Aguilera & Jackson, 2003). A separate strand of the governance literature examines companies’ contributions to social and economic development (Clarke, 2004,) but agency theory- as other theories such as transaction cost economics, stakeholder theory, class hegemony theory, managerial hegemony theory and stewardship theory which have also been used in corporate governance research (Blair, 1995; Mallin, 2007; Solomon, 2007)- by definition views corporate governance from the boundaries specified by that theory and cannot capture all aspects of the notion (Cadbury, 2002).

Research that uses positivist theories such as agency theory to study corporate governance is dominated by studies in Anglo-Saxon countries, mainly the US and UK, but it is now becoming recognised that researchers in other countries need to use alternative frameworks (Turnbull,1997; Davis, 2005; Wanyama et al., 2009).

Applying theoretical models in different contexts where cultural, legal, political and economic systems differ from the Anglo-Saxon world may generate conclusions of limited value unless the adopted frameworks are built on assessments of specific environmental factors (Wanyama et al., 2009).

Although theoretical frameworks have focused in the past on the Anglo-Saxon context, some of the resent research on corporate governance has broadened the theoretical scope of the extant literature. For example a stakeholder approach to corporate governance analyses may be appropriate in nations where communities rather than individuals are emphasised in cultural traditions (Brennan and Solomon, 2008). In light of these considerations the next section discusses the theoretical lens used in this thesis.

4.3 Institutional Theory

New institutional sociology (NIS) is the theoretical framework used in this thesis to interpret the findings of this research[35]. Given the dominance of institutions in all aspects of Saudi life, this perspective was thought appropriate for the present study. In addition the framework fits well with the study's focus on the board as an institutional governance mechanism. This perspective is adopted in order to explain the institutional factors that influence corporate governance practices of Saudi listed companies by answering the research question: What are the factors influencing the corporate governance practices of KSA-listed companies?

[35] Hofstede's cultural dimensions is also used in identifying how values influence practice, However its limitations regarding the five cultural dimensions overlooks other environmental influences that might emerge within a particular context.

The definition of the term "institution" varies amongst scholars as some definitions are specific and clear, whereas others are less clear in their conceptualisation (Scott, 1987).

Khadaroo and Shaikh (2007) argue that institutions are not only structures specific to one organisation, but also to other organisations combined together in a given context in order to achieve the same objectives such as in an organisational field. Zucker (1977; 1991) argues that institutionalisation is a process whereby individuals agree on what is real and define it as a taken for granted part of reality where the observer is exterior and objective. Meyers and Rowan (1977) concept of institutionalisation is a practice where social processes, obligations, or actualities come to be taken for granted in social thought and action. Hasselbladh and Kallinkos (2000) address the scope of institutionalisation as follows:

> "Institutionalization does not end with the diffusion of rationalized beliefs and practices. [Rather it] is sustained and given meaning and direction through its capacity to constitute distinctive forms of actorhood." (p. 701).

Scott (1995) gives a conceptualised definition stating that:

> "Institutions consist of cognitive, normative, and regulative structures and activities that provide meaning to social behaviour. Institutions are transported by various carriers - cultures, structures and routines - and they operate at multiple levels of jurisdiction ... institutions are multifaceted systems incorporating symbolic systems - cognitive constructions and normative rules and regulative processes carried out through and shaping social behaviour."(p. 33).

Friedland and Alford (1991) argue that institutions conceive of:

> "Both supraorganizational patterns of activity through which humans conduct their material life in time and space, and symbolic systems through which they categorize that activity and infuse it with meaning." (p. 232).

These definitions have in common the notion that institutionalisation is a process where individuals agree on what constitutes social reality, and that social behaviour is guided by cultural and social premise. The conceptualisation of Scott (1995) combines three elements, cognitive, regulative and normative aspects of institutions; these elements have some similarities with DiMaggio and Powell's (1983) early rise of isomorphism classifications discussed later in this chapter.

Institutional theory has been used in disciplines such as sociology, economics and accounting to try and help understand different socio-economic phenomena in societies and organisations (Meyers and Rowan, 1977; DiMaggio and Powell, 1983) this diversity might be one of the reasons why there is as yet no agreed upon definition of the term institution. Institutional theory has, though, developed rapidly over the decades and this evolution has led to three branches of related thinking to being widely recognised: Old Institutional Theory (OIT); New Institutional Economics (NIE); and New Institutional Sociology (NIS). While these three perspectives on institutional theory have different assumptions, they share a common concern about institutional change (Burns and Scapens, 2000) and have been used in different disciplines' such as management, accounting and more recently in corporate governance, to understand observed organisation changes (Covaleski and Dirsmith, 1983; 1988; Collier and Robberts, 2001; Scapens, 2006; Zagoub, 2011).

Advocates of NIE argue that large corporation hierarchies emerge because of difficulties in establishing efficient exchange mechanisms where transaction costs are high (Williamson, 1975). By adopting a micro-analytical economic approach, assuming rational behaviour and equilibria in explaining why transactions are organised in certain ways. NIE is used to explain the emergence and existence (or absence) of particular institutions, (Hodgson, 1993).

Old institutional economics (OIE) looks at the actions of individuals in terms of rules, routines and institutions (Burns and Scapens, 2000). The theory focuses on rules, habit, customs and routines that are taken for granted as ways of explaining how things become what they are, and on understanding why and how structures emerge (or change) over time by examining them from a macro-economic level (Burns and Scapens, 2000; Burns and Baldvinsdottir, 2005). OIE rejects the assumption of rational optimistic individual adopted by NIE thinking (Hodgson, 1994).

There are some similarities between the OIE and NIS theories. For example they both reject the rational economic approach adopted by NIE, and emphasise on the relationship between the organisation and its environment and stress the role of culture.[36] Both paradigms also stress that institutions in the environment have an effect on organisational rationality (although the perceived nature of these effects are different) and they both view institutions "as a state-dependent process which makes organisations less instrumentally rational by limiting the options they can pursue" (DiMaggio and Powell, 1991, p12).

However, there are also some significant differences between the two theories. For example NIS tries to explain why organisations tend to become more similar over time by outlining the pressures that shape them in the context of the socially structured world where organisations exist, and focusing on the social rules and rituals that drive irrationality in formal structure themselves. In context, the OIE prioritises the questions

[36] Culture is defined here by North (1990) as: "transmission from one generation to the next, via teaching and imitation, of knowledge, values, and other factors that influence behaviour.''

of how and why informal arrangements deviate from the formal structure within an organisation but neglecting the influence of the external social environment (DiMaggio and Powell, 1991; Orru et al., 1991; Burns and Scapens, 2000).

4.3.1 Institutions and Environments

Earlier literature argues that organisations have become more affected and judged by the environment in their context. In this context, Selznick (1966) explains that while organisations are evaluated on technicalities they also have a natural dimension that affects them as “they are products of interaction and adaptation” (p. 22).

Writers on new institutionalism have argued that in order to understand change, the historical context of environments needs to be considered in order to understand existing practices; institutionalisation directly reflects the history of the organisation the groups of people within it and how it has adapted to its environment (Perrow, 1977; Selznick, 1966; North, 1990). Here, North (1990, p. vii) states that:

> “History matters, it matters not just because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society’s institutions. Today`s and tomorrow’s choices are shaped by the past. And the past can only be made intelligible as a story of institutional evolution.”

In this regards, Perrow (1986) emphasises the need for an institutional perspective:

> “For institutional analysis, the injunction is to analyze the whole organisation. To see it as a whole is to do justice to its organic character. Specific processes are, of course, analyzed in detail, but it is the nesting of these processes into the whole that gives them meaning”. (p. 158).

Although Selznick (1966) argues that organisations have values that are infused from the environment, he did not touch upon how these values and norms[37] emerge (Scott, 1987). Other scholars have since argued that organisational structures are influenced/ shaped according to the institutional environment in which they are located in, and not by organisational requirements (Meyers and Rowan, 1977; DiMaggio and Powell 1991; Friedland and Alford, 1991). External forces within environments such as norms, culture, political and religion play a part in influencing the adoption of certain structures that take the form of rules or institutional practices supported by public opinion and/or enforced by law (DiMaggio and Powell, 1983; Powel and DiMaggio, 1991). Scott (1987) argues:

> "Organisations do not necessarily conform to a set of institutionalized beliefs because they "constitute reality" or are taken for granted, but often because they are rewarded for doing so through increased legitimacy, resources and survival capabilities." (p. 498).

Organisations can therefore be pressured by institutions in their environment, making them conform to certain norms, rules and structures in order to achieve legitimacy and secure the resources needed in order to survive. Organisations that establish institutional structures and processes are then rewarded (Scott and Meyers, 1983). This tendency, however, does not imply that these "*myths and ceremonials"* would necessarily increase efficiency (Meyers and Rowan, 1977). In reality therefore organisations are made up of cultural norms and materials from their environments which play a part in the decoupling between the policies and structures of organisations (Meyers and Rowan, 1977; 1978; Meyer, 2008; Bromley and Powell, 2012).

[37] According to Scott (1995,. p.37) "Norms specify how things should be done, they define legitimate means to pursue valued ends"

NIS perceives systems and cultures as being objective in nature, and external to the individuals involved, with individual actions within an environment guided by the pre-existing cultural rules that constrain choices (Scott, 1995). Thomas et al. (1987) explain these rules by stating that:

> "Institutionalized cultural rules define the meaning and identity of the individual and the patterns of appropriate economic, political, and cultural activity engaged in by those individuals." (p. 12).

Therefore choices[38] are guided and driven by rules, social and cultural norms and legal requirements. Choices are structured and guided by the way in which social rules and values have made them look acceptable. Individual choices are therefore made according to obligations to, and not because of, individual interests; the set of assumptions that pre-exist and are embedded through the environment according to social and cultural norms and legal and religious beliefs act as guides. Organisations, therefore, adopt particular structures not because they are the best choice, but because of institutional forces and not for the effectiveness of these choices. Power and legitimacy forces are stronger that the need for efficiency in new institutionalist thinking (Carruthers, 1995).

Institutional norms vary in two key respects: (1) their effect over time, as some norms have an indefinite effect and others decrease or increase over time; and (2) their impact on different organisations, as sectors within organisations require alternative institutional practices (Scott and Meyer, 1991). Searing (1991) argues that these institutions become different in different contexts, while Scott (1987a, p.508) suggests that:

[38] The term choices here illustrates a set of choices within a certain boundary of the alternatives choices that are available to choose from (Barley and Tolbert, 1997).

> "Institutional frameworks define the ends and shape the means by which interests are determined and pursued. Institutional factors determine that actors in one type of setting, called firms, pursue profit; that actors in another setting, called agencies, seek larger budgets; that actors in a third setting, called political parties, seek votes; and that actors in an even stranger setting, research universities, pursue publications".

The theory also assumes that as well as the institutional environments that organisations face, (i.e. the given rules and requirements which organisation conform with in order to be recognized as legitimate[39]) they also face (technical) environments, i.e. those where product or service provision leads to organisations becoming more efficient and effective. The effect of technical or institutional environments depend upon the life cycle of an organisation (Powell, 1991); the early years of an organisation`s life cycle would be strongly affected by technical environments while at the mature stage of the life cycle institutional environments become more significant (Powell, 1991). However, it is sometimes difficult to differentiate between technical and institutional rules; many institutional norms and rules are designed to look like technical ones (Scott and Meyers, 1991). This tendency is because those who formulate institutional rules strive to make them appear technical in nature. As other technical rules become institutionalised, they may, over time, lose their technical advantage and remain in use because of becoming institutionalised (Powell, 1991) and becoming an institutional logic (Friedland and Alford, 1991; Thornton & Ocasio, 1999; 2008).

Thus, the technical and institutional pressures on organisations may vary according to the underlying business activity or sector; for example, banks may face a high level of technical and institutional pressures, whereas health clubs may face low levels of both (Scott, 1987b). Figure 4.1 illustrates these differences:

Figure 4.1 The Institutional Pressures

[39] Scott and Meyers, 1983; Scott, 1991

Institutional Environment

Technical environment	***Stronger***	***Weaker***
Stronger	Banks, Insurance	Manufacture
Weaker	Clinics, Schools	Health clubs, restaurants

Source: Table 6.1 in Scott (1987b, p126)

Thus, organisations within different sectors may be affected differently by both institutional and technical environments (Scott and Meyer, 1991).

4.3.2 Institutional Isomorphism

As discussed above, organisations often adopt institutionalized practices to enhance external legitimacy to validate their activities and increase survival probability (Meyers and Rowan 1977; Covaledki and Dirsmith; 1983; Zucker, 1987; 1991). In this context, a number of scholars have attempted to understand how and why organisations conform to environmental institutional norms (Scott, 1987a).

The most prominent studies of this type is that of DiMaggio and Powell (1983) who argue that organisations within the same environment will tend to become more homogeneous over time and that this homogenisation is explained, by institutional theory, through two types of “isomorphism”: ‘competitive’; and (2) ‘institutional’. Competitive isomorphism relates to situations where market competition drives organisations to adopt cost effective structures and practices. For example organisations would all tend to adopt the ‘best’ and cheapest product. In context, Institutional isomorphism involves political power and institutional legitimacy being pursued. The latter isomorphism is relevant to this thesis. Institutional isomorphism is subcategorized by DiMaggio and Powell (1983) into three categories: coercive; mimetic; and normative.

Coercive isomorphism arises from external forces which pressurise organisations to adopt mandates or conform to regulations, such as political and governmental mandates and laws (DiMaggio and Powell, 1983; Moll et al., 2006) which influence organisations to adopt a certain set of rules including new laws or codes which are followed up with monitoring and result in either sanctions or rewards in order to influence future actions (Scott, 1995).

Mimetic isomorphism relates to organisations imitating others' structures and procedures ((DiMaggio and Powell, 1983) in an attempt to be viewed in the same way as leaders in the same field. This pressure to mimic others is driven by uncertainty and a lack of clarity regarding solutions which makes the copying of structures of successful organisations the easiest way to gain the perceived benefits (Greenwood and Hinings, 1996; Greenwood et al., 2002) this tendency suggests that smaller or less successful organisations model themselves on others, and organisations with ambiguous goals are also more likely to mimic others to legitimate their activities (DiMaggio and Powell, 1983). For example, and in the context of the present study, adoption of certain board structures by large successful companies would make other companies desire imitation of the structures involved. This imitation propend can be an effective means for organisations with poorly focused goals to imitate other successful ones.

The third type of institutional isomorphism identified by DiMaggio and Powell, 1983 is "normative". This version arises when professional bodies or consultants advocate an institutional form which is consistent with their aims, and organisations then apply these institutionally-favoured characteristics in an effort to be seen as legitimate. Professional bodies often play in shaping and redefining practices as well as encouraging organisations to interact with each other (Greenwood et al., 2002). Normative isomorphism is different from coercive or mimetic isomorphism, as the obligation to comply stems from how things should be done without the pressure of laws and regulations (Scott, 1995). A relevant example here is the OECD; Principles of Corporate Governance which have been widely adopted as guidelines for corporate governance best practice (Wanyama et al., 2009) across the globe. Isomorphism thus explains why organisations adopt structures or rules (i.e. in order to avoid punishment or because of moral obligation) (Scott, 1995). Some scholars have focused more on regulatory elements (Scott, 1995) and other focus on socio-cultural norms DiMaggio (1988).

These institutional isomorphic pressures would lead to similarities in organisations practices within the same environment (DiMaggio and Powell, 1983). Thus forming a community of practice (Marquis et al., 2007).This has led to broadening the views within institutional theory (Lounsbury, 2008), with the stands taking an institutional logic (Friedland and Alford, 1991; Thornton and Ocasio, 1999; 2008; Spicer and Sewell, 2010) versus an institutional work root (Lawrence and Suddaby, 2006). Thus, there are multiple institutional constraints within society in an organisational field, each with their own material practices and symbolic constructions which constitutes the relations between different aspects of society (Friedland and Alford, 1991; Seo and Creed, 2002; Suddaby and Greenwood, 2005; Greenwood et al., 2011). Hence symbolic carriers are the rules, beliefs and norms defining acceptable practices; and material carriers comprise artificial laws and routines which are continually reproducing the institutional logics of the actors involved within the organisational field [40](Friedland and Alford, 1991; Thornton & Ocasio, 1999; 2008). Institutions may thus have a variety of isomorphic pressures from different institutional logics, which determine how they respond to institutional pressures (Friedland and Alford, 1991; Oliver, 1991; Greenwood et al., 2011) resulting in different community of practices (Helms et al., 2012; Lepoutre and Valente, 2012) that may overlap (Hyvonen et al., 2012). Governments issue laws and regulations to guide human activities, and such "social systems" all have different material and symbolic carriers that produce and reproduce their institutional logics (Helms et al., 2012). For example, when non-Western countries adopt Western technologies and regulations they may face cultural problems as symbolic carriers (Friedland and Alford, 1991). Thus, an important part of the institutional logics affecting an organisational field are those arising from the societal level (Greenwood et al., 2011). In this context, it is important when looking at corporate governance practices in Saudi Arabia, to take into consideration the social and cultural aspects of society as discussed in chapter two. The next section will now turn to prior governance research using institutional theory.

4.4 Institutional Theory for the Present Study

Although there are some limitations to New Institutional Sociology, it has been chosen as the theoretical framework for the current study, this is because, as mentioned in chapter two, Saudi Arabia, as with many other Arab countries, has a tribal and authoritarian culture (; Al-Ghathami, 2009; Krebat et al., 2013). The main concern of this thesis is to understand the factors influencing governance practices, the use of the

[40] Friedland and Alford (1991) argue that within each organizational field- such as for this thesis Saudi listed companies- there are institutional logics, and the interplay between these logics take part in confining individual behaviour.

new institutional sociology seems to be an insightful framework to embrace when examining such phenomena especially when taking into account the differences between developed and developing countries institutions.

4.5 Summary

This chapter has outlined the theoretical framework for this thesis, presenting an overview on theories used in corporate governance research and a discussion on institutional theory in general and with particular insights on new institutional sociology. The chapter defines institutions and how they become part of the taken for granted rules and norms in a social context. The chapter also examines coercive, mimetic and normative isomorphism to which organisations may conform to result in dominant institutional logics and a community of practice.

The theoretical framework used in this study contributes to pervious research on corporate governance that has mainly used agency and resource dependence theories and extends the limited theoretical development of corporate governance issues (Aguilera and Cuervo-Cazurra, 2009). The new institutionalism approach examines the institutional factors that shape corporate governance practices that often tend to be different across countries, contributing to the emerging attempt to incorporate institutional theory within the corporate governance research (Aguilera & Jackson, 2003; Aguilera et al., 2008) and therefore will help in informing the aim of this research to find out what are the institutional factors that influence corporate governance practice among KSA-listed companies. The next chapter will discuss the methodology and methods adopted in this thesis.

Chapter Five: Methodology and Methods

5.1 Introduction

Chapter Two of this thesis presented a review of the literature on corporate governance with a particular focus on the practices of the boards of directors. Chapter three then provides background on the Saudi environment. Chapter Four discussed the theoretical framework which the researcher intends to use for this study. This chapter completes the contextual part of this thesis by discussing the methodology and methods adopted in this thesis. Section 5.2 briefly discusses the definition of research while section 5.3 outlines the philosophical assumptions adopted by Burrell and Morgan (1979). Section 5.4 provides alternatives to Burrell and Morgan's framework. Section 5.5 describes the methodology and method employed in this thesis. Section 5.6 concludes the chapter by summarizing the key points.

5.2 Research methodology

5.2.1 Context

Research is an important context in all fields of study. It is a method of investigation which considered a scientifically valid approach to academic enquiry. In a business and management context, research has been defined by Lewis and Thornhill (2003) as:

> "...something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge."(p.3)

According to this definition, a meaningful research project one should combine two main elements, the first, being the desire to add to knowledge and the second relating to a robust and systematic research plan (Saunders et al., 2009). Research combines multiple stages, which may vary depending on the discipline concerned, but any researcher is likely to go through the processes of reviewing the literature, collecting and analysing data using appropriate methods and then presenting the results (Saunders et al., 2009). This chapter discusses the details of these processes in so far as they are relevant to the present study. The next section therefore outlines the philosophical assumptions about the nature of social science and the nature of society that underpin the thesis.

5.2.2 Assumptions about the Nature of Social Science

Burrell and Morgan (1979) suggest that views of social science are either subjective or objective in nature, based on four underpinning set of assumptions. These are categorised as: ontology, epistemology, human nature and methodology. The authors argue that each category has two extremes 'subjectivism' and 'objectivism' and this categorisation is applied to four sets of assumptions made by social science researchers. The subjectivist position regards reality as being constructed by people's perception whereas objectivism is based on the notion that reality exists external to individuals and can therefore be measured by 'objective' methods (Easterby-Smith et al., 2002).

The first of the four sets of assumptions is related to ontology, which is concerned with the question of 'reality', i.e. how the researcher views the world and whether observations are external to the individual or part of an individual's consciousness. Burrell and Morgan (1979) argue that the two possible ontological positions 'nominalist' at the (subjectivist) end of the continuum or 'realist' (aligned to positivism). Nominalism regards the world as being made up of names, concepts and labels for describing reality in a world where no real structure exists. On the other hand, realists regard the world as being made of hard, tangible objects that are external and independent, with humans being born into a pre-existing socially-structured world.

Epistemological assumptions relate to the nature of knowledge and how it is communicated with others, questions such as 'what is knowledge' and 'how is it learnt' are central here (Bryman, 2004). Cooper et al. (1999) states:

> "Many people have the impression that epistemology is the most central area of philosophy, or even that philosophy should really be identified with epistemology. Certainly there is a popular image of philosophers as people obsessively and almost solely concerned with determining whether we really know the things we ordinarily think we do." (p. 3).

Thus, knowledge is viewed as being either "hard, real" and able to be conveyed in a tangible form or, subjectively as soft, based on experience and insight (Burrell and Morgan, 1979). The two extremes are termed positivist and anti-positivist; 'positivists' are those who see knowledge as hard and real, independent of individuals and discovered by searching for relationships between different observed elements. In context, anti-positivists reject the idea that knowledge exists independently from individuals and argue that knowledge can only be obtained from those who are involved directly in the phenomena under investigation.

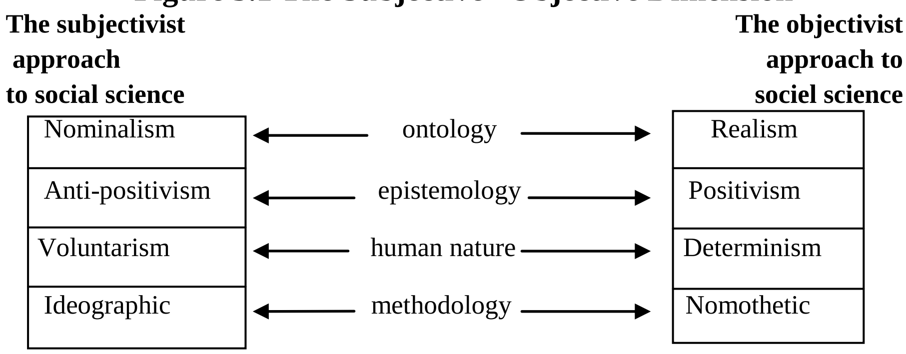
The third set of assumptions in Burrell and Morgan's analysis relates to human nature, and how humans see their relationship with the environment in which they live. Burrell and Morgan argue in their context that human behaviour is either: (i) determined by the environment in which humans live and is a product there of -the 'deterministic' view; or (ii) is based on the notion "completely autonomous and free willed" (p.6) in creating their own environment- the 'voluntarist' view.

Burrell and Morgan (1979) argue those researchers' assumptions about ontology; epistemology and human nature lead them to adopt either an ideographic or nomothetic methodology. An ideographic methodology assumes that one can only understand the social world by obtaining first-hand knowledge of the phenomena under investigation, while a nomothetic methodology is objective in nature, allowing for knowledge to be developed from a distance. In this context, Burrell and Morgan (1979, p.3) state that:

> "The methodological issues of importance are thus the concepts themselves, their measurement and the identification of underlying themes. This perspective expresses itself most forcefully in a search for universal laws which explain and govern the reality which is being observed." (p. 3).

Researchers with a nomothetic methodology normally use methods such as quantitative techniques to analyse these realities under investigation. On the other hand researchers using an ideographic methodology would use methods such as interviews and case or felid studies. Questionnaire surveys as a method are used by both methodological strands to obtain empirical data. By reflecting on the subjective and objective view of reality, Figure 5.1 illustrates the subjective and objective dimensions of Burrell and Morgan (1979) based on these four assumptions.

Figure 5.1 The Subjective –Objective Dimension



Note: This figure summarises the assumptions about the nature of social science outlined in Burrell and Morgan (1979). Source: Burrell and Morgan (1979, p.3).

5.2.3 Assumptions about the Nature of Society

The second set of assumptions outlined by Burrell and Morgan (1979) are those related to the nature of society. Here they build on the work of Dahrendorf (1959) concerning the nature of society and focus on two concerns: the nature of social order and problems of change and conflict. The order-conflict debate is illustrated in Table 5.1

Table 5.1 Theories of Societies "The Order" and "conflict" Views of Society

The 'order' or 'integrationist' view	The 'conflict' or 'coercion' view
Stability	Change
Integration	Conflict
Functional co-ordination	Disintegration
Consensus	Coercion

Note: This table outlines the different notions underpinning the 'order' and 'conflict' view of society. Source: Burrell and Morgan (1979, p. 13).

Burrell and Morgan (1979) argue that Dahrendorf`s social structure model is simplistic and could lead to misunderstandings amongst researchers. Different labels are therefore needed and Burrell and Morgan suggest replacing the term "order" with "regulation" and "conflict" with "radical change" (p.16). The sociology of regulation views society as developing in a cohesive manner, whereas researchers from the sociology of radical change school are concerned more with explanations of modern society that adopt a 'critical' or 'change' based perspective.

These two assumptions regarding the nature of society have two extreme points, similar to the previous subjective objective framework. The Burrell and Morgan (1979) representation of the sociology of regulation and the sociology of radical change is reproduced in Table 5.2

Table 5.2 The Regulation- Radical Change Dimensions

The sociology of REGULATION	*The sociology of RADICAL CHANGE*
(a) The status quo	(a) Radical change
(b) Social order	(b) Structure conflict
(c) Consensus	(c) Modes of domination
(d) Social integration and cohesion	(d) Contradiction
(e) Solidarity	(e) Emancipation
(f) Need satisfaction	(f) Deprivation
(g) Actuality	(g) Potentiality

Note: The table outlines the characteristics associated with the Regulation and Radical change sociologies outlined by Burrell and Morgan (1979). Source: Burrell and Morgan (1979, p. 18).

5.2.4 Research Paradigms

A research paradigm represents a particular way that guides an individual's belief system (Guba and Lincoln, 1994). Kuhn (1962) argues that paradigms are "universally recognized scientific achievements that for a time provide model problems and solutions to a community of practitioners" (p.viii). Collis and Hussey (2003. p. 47) define paradigms as:

> "The progress of scientific practice based on peoples' philosophies and assumptions about the world and the nature of knowledge … offering a framework comprising an accepted set of theories, methods and ways of defining data."

Burrell and Morgan (1979, p. 23) expand these definitions by viewing paradigms as:

> "Basic meta-theoretical assumptions which underwrite the frame of reference, mode of theorising and modus operandi of the social theorists who operate within them. It is a term which is intended to emphasise the commonality of perspective which binds the work of a group of theorists together in such a way that they can be usefully regarded as approaching social theory within the bounds of the same problematic" (p. 23).

Burrell and Morgan (1979) classify paradigms according to the assumptions made regarding the nature of social science and the nature of society. As a result the way individuals see the world is classified into four paradigms, each with its own boundaries that do not overlap. Burrell and Morgan argue that two sets of assumptions adopted by researchers determine which paradigm they will operate within. The first set of assumptions concerns the nature of social science, or how researchers understand the world, while the second set relates to the nature of society. Burrell and Morgan argue that these paradigms are mutually exclusive and that a researcher cannot be in more than one paradigm at a single point in time. However, this view has been criticised, for example by Chua (1986) who argues that this mutual exclusivity is not valid as it does not take account of theoretical perspectives that view society as being situated on a continuum of human interaction.

Figure 5.2 outlines the four paradigm scheme set out by Burrell and Morgan based on assumptions about the nature of social science and the nature of society, they term them: radical humanist; radical structuralist; interpretive; and functionalist

Figure 5.2 Paradigms Classifying Social Sciences

The Sociology of Radical Change

Subjective	Radical humanist	Radical structuralist	***Objective***
	Interpretive	Functionalist	

The sociology of regulation

Note: The figure shows the four paradigms classifying social science research outlined by Burrell and Morgan. Source: Burrell and Morgan (1979, p. 22).

Each paradigm is viewed as attached to but separate from each of its neighbours, as they share similar characteristics but are fundamentally different as regards to viewing the world and the use of particular research methods. Thus, a researcher's choice of paradigm affects both the way a researcher approaches the phenomena under investigation, and the manner in which results are analysed.

The functionalist paradigm involves the sociology of regulation and seeks to explain phenomena in an objective manner. Researchers located in this paradigm try to explain the status quo and social order by embracing a realist standpoint (Burrell and Morgan, 1979) that sees the world as real and practical solutions emerging from observation of real-world phenomena. Functionalism, which adopts a positivist, deterministic and nomothetic approach, is summarized by Burrell and Morgan (1979) as:

> "…a perspective which is highly pragmatic in orientation, concerned to understand society in a way which generates knowledge which can be put to use" (p. 26).

Burrell and Morgan argue further that this pragmatism is partly responsible for functionalisms' predominance in the academic literature. Whilst the functionalist and interpretive paradigms both share the assumption of the 'sociology of regulation' standpoint, interpretiveists take a subjective rather than an objective standpoint regarding the investigation of society, seeing the world as an evolving social process which is created by those concerned (Burrell and Morgan 1979). Researchers located in the interpretive paradigm try to understand the world as it is, which cannot be achieved by external observation, and instead requires direct interaction with those individuals who are involved on the ground. Methods used by researchers located in this paradigm adopt a nominalist, anti-positivist, voluntaristic and ideographic approach.

The radical humanist paradigm combines a subjective and radical change perspective, viewing the world in a similar way to interpretivists in terms of individuals creating the world in which they live. However, radical humanists criticise the status quo which is seen as a barrier to human development, and are interested instead in emancipation, deprivation and potentiality. Finally, the radical structuralist paradigm shares the concern with emancipation and changing society, but takes an objective view of the world and focuses on conflict within organisational structures which can be measured more scientifically (Burrell and Morgan, 1979).

5.3 Alternatives to the Burrell and Morgan framework

Burrell and Morgan (1979) argue that a researcher can only be in one paradigm at any given point in time and this dichotomous view has been criticised by other theorists. For example, Chua (1986) argues that Burrell and Morgan's classification of paradigms does not take into account other assumptions in regards to their paradigm classification, in this context she states that:

> "All the assumptions are presented as strict dichotomies: for example one either assumes that human beings are determined by their societal environment or they are completely autonomous and free-wiled"

Bhaskar (1998) argues that humans are continuously engaged with their society in "socio-psychological" activities which leads to collective sharing of the reproduction of their realities. Bhaskar states that:

> "Society must be regarded as an ensemble of structures, practices and conventions which individuals reproduce or transform, but which would not exist unless they did so. Society does not exist independently of human activity, but it is not the product of it" (p. 39).

The subjective and objective extremes presented by Burrell and Morgan are often criticised on the basis that many intermediary stand points may exist; other researchers argue that several intermediary stages exist between the two ontological and epistemological extremes. For example, Morgan and Smircich (1980) argue that six categories exist depending on ontological stance as illustrated in Figure 5.1.

Figure 5.3 The Morgan and Smircich Framework

	Subjectivist approach to Social Science					**Objectivist approach to social science**
Core ontological stance	Reality as a project of human imagination	Reality as a social construction	Reality as a realm of symbolic discourse	Reality as a contextual field of information	Reality as a concrete process	Reality as a concrete structure
epistemological stance	To obtain phenomenological insight, revelation	To understand how social reality is created	To understand patterns of symbolic discourse	To map context	To study systems process, change	To construct a positivist science

Source: Morgan and Smircich (1980, p. 492)

Another criticism of Burrell and Morgan's (1979) analyses is that the choice and evaluation of paradigms cannot be justified on any rational grounds. Chua (1986) argues that advocating irrationality is a misrepresentation of Kuhn's (1962) notion that no acceptable framework of what constitutes 'scientific rational choice' exists. Chua also suggests that the distinction between radical humanist and radical structuralist paradigms is not clear within the sociology literature itself. Other researchers have combined the two radical paradigms together (Hopper and Powell, 1985).

Chua (1986) outlines three sets of beliefs underpinning social science research: knowledge; the empirical phenomena under investigation; and the relationship between theory and practice. She believes that knowledge is "produced by people, for people, and is about people and their social and physical environment" (Chua, 1986, p. 603).

Knowledge includes methodological and epistemological assumptions; the latter are concerned with understanding the criteria for assessing a truthful claim, while methodology requires the methods used by the researchers to be ‘valid’. The second set of beliefs relate to physical and social reality and the relationship between ontology, human purpose and society. The relationship between theory and practice concerns the issue of how society can benefit from empirical research investigation. The next section will discuss the methodology and method adopted in this thesis.

5.4 Research Methodology and Paradigm

The objective of this research is to investigate and provide a general understanding of the factors that influence corporate governance practices in KSA listed firms. An institutional theory perspective is used to investigate this phenomenon and to examine in particular whether isomorphic pressures exist in shaping board processes, practices and structures. The ontological position of this research is nominalist, as reality is treated as being constructed through the perceptions of those directly involved in KSA boards, with interviews and questionnaire survey the methods used to try and achieve this aim.

An anti- positivist epistemology is adopted as this research assumes that knowledge is based on personal experiences; boardroom processes and practices in Saudi Arabia are investigated by gaining insights directly from the individuals involved. Therefore this research does not examine, or try to predict relationships between different variables to understand the social phenomena, but attempts instead to gain first-hand knowledge from board members and other individuals who are directly involved with boards of directors of KSA-listed companies. This leads to the adoption of an ideographic methodology that employs qualitative tool such as interviewing relevant participants.

However, there is a degree of nomothetism in the approach, as questionnaires are also used in order to obtain and analyse data from a larger sample of board members and stakeholders that can in turn be used to interpret any similarities or differences in practices that emerge. The use of mixed methods such as interviews and questionnaires should help in reducing potential bias and enhance the reliability and validity of the results (Denzin, 2009; Patton, 1990).

As regards human nature, this study investigates the practices of boards of directors composed of real people in organisations, and these structures are viewed as being part of the environment and therefore influenced by it. However, the research assumes that these pressures are created and sustained by human interaction, as individuals themselves take part in shaping these environmental pressures, and are not, therefore, completely influenced and deterministic, autonomous or free-willed. The current research uses the theoretical underpinning of new institutional sociology which argues that individuals' actions within an environment are guided by pre-existing cultural and social rules which constrain their choices; organisations also play a part by virtue of having an inter-changing relationship with their environment (Meyers and Scott, 1983; Scott, 1995). Board members are therefore affected by external environmental pressures, created and sustained by human interaction which determines their actions; the extent to which these pressures continue will depend on humans continuing to make these choices. However, corporate governance practices, especially those related to the board of directors are mostly voluntary in Saudi Arabia (Faligi, 2009) therefore an element of choice exists in terms of shaping boards. An intermediary standpoint is thus adopted in order to allow for the influence in practice of both voluntaristic and deterministic assumptions.

Finally, the research adopts regulatory assumptions regarding the nature of society as this thesis does not attempt to challenge or change the status quo, but is concerned instead with understanding extant board practices in order to provide explanations of the forces that shape current corporate governance practices. Having outlined the methodological positioning of this study, the chapter continues by discussing the specific research methods adopted.

5.5 Research Method

Several research methods are available to researcher adopting a qualitative approach. In order to meet the objectives of this research, the thesis adopts two methods- semi-structured interviews and a questionnaire survey- as the main tools for generating empirical data. The next section discusses these methods and their use here.

5.5.1 Interviews

5.5.1.1 Interviews Types

Interviews are the most commonly-used method in qualitative research (Burgess, 1997) and are used to obtain insights from individuals that are contextualised in their own terms, perceptions, attitudes, values and experiences (May, 2001). In practice, interviews usually take the form of face-to-face discussions with individuals, but groups of people can also take part (Kahn and Cannell, 1957, cited in Saunders et al., 2009).

Interview approaches tend to be one of three types: structured, semi-structured or unstructured. Unstructured (in-depth) interviews allows for questions that were not developed in advance, but which become relevant during the context of discussions. This flexibility has to be weighed up against the researcher having no control over the range of topics that different interviewees may talk about (Collis and Hussey, 2009) although the latter can also have benefits in terms of novel insights (Robson, 2002).

Semi-structured interviews have less flexibility than unstructured interviews, but more than structured interviews. Bryman (2001) describes the process of semi-structured interviews as:

> "The researcher has a list of questions or fairly specific topics to be covered, often referred to as an *interview guide*, but the interviewee has a great deal of leeway in how to reply. Questions may not follow on exactly in the way outlined on the schedule. Questions that are not included in the guide may be asked as the interviewer picks up on things said by interviewees. But, by and large, all of the questions will be asked and a similar wording will be used from interviewee to interviewee." (p. 321).

Semi-structured interviews are based on a set of specific theme-related questions that may be asked in a different order depending on the direction of the conversation to gain insightful information on the phenomenon (Powney and Watts, 1987). During the course of the interview the researcher may follow-up with additional questions about certain aspects of the research topic that were not envisaged at the outset. However, even in semi-structured interviews, the initial questions asked should be common and consistent, as changing the wording may result in different interpretations being placed upon them by the interviewees; here, Patton (1990) states:

> "The way a question is worded is one of the most important elements determining how the interviewee will respond" (p. 259).

Structured interviews are a set of questions laid out in a standardised order. This approach is mainly used in quantitative research (Saunders et al., 2009). The disadvantage of this type of interview is that it does not allow the researcher to deviate from the questions being asked to follow-up on relevant issues that might emerge. However, structured interviews benefit from reducing the potential for bias to occur from inconsistencies in question format and nature (Patton. 1990). In addition, data analysis is relatively straight-forward as answers from different participants are located to specific questions very easily (Patton, 1990).

While there are different interview methods, the main objective of all three types "is to find out what is in and on someone else's mind… [and] to access the perspective of the person being interviewed" (Patton, 1990, p. 278).

Interviews are one of the prominent methods in qualitative research (Burgess, 1997; May, 2001), but researchers are required to take written notes and audio record (if possible) all discussions; (Jankowicz, 2005) not doing so may result in errors and misrepresentation of the interviewees' answers (Bryman, 2001). The use of an audio recorder may result in making the interviewee uncomfortable, which may in turn have an effect on the answers given. More generally, interviews take time to conduct and analyse; they can also be expensive to carry out (Bryman, 2001). In particular, obtaining access to senior individuals in industry, academia and government can be very difficult, particularly in developing countries (Shikaputo, 2013). Interviewing certain people may also be another difficulty which a researcher may face.

5.5.1.2 The interview process

This study adopts semi-structured interviews as one of the methods of gathering empirical evidence on the corporate governance practices of Saudi-listed companies. This method has been employed in order to understand the perceptions, beliefs, knowledge and experiences of board members related to the role and practices of boards in Saudi-listed companies. The use of interviews has been argued to be a useful method in gathering reliable and relevant evidence related to the research question (Saunders et al., 2009) and in line with the methodological assumptions of this research. Using a qualitative tool is argued to be an effective approach in order to understand complex phenomena (Eisenhardt, 1989) such as corporate governance practices in KSA.

The questions used in the interviews were generated from the literature on corporate governance in general - including studies relating directly to developing countries- but in the context of the specific Saudi Arabian business environment and the factors that have influenced in shaping current governance trends in listed companies. The interview questions covered three main topics: (i) the adoption of the Saudi corporate governance code; (ii) current practices of listed companies in regard to board composition and board committees- including their roles and responsibilities and the factors that have shaped these practices; and (iii) factors that have influenced corporate governance and its adoption in the KSA more generally. The interview questions (in both English and Arabic) are provided in Appendix C.

The interview questions were first written in English, then translated (and back-translated) in to Arabic to ensure no meanings were lost (Alreck and Settle, 1995). The Arabic version was piloted on staff and PhD students at the School of Business in the University of Dundee whose first language was Arabic. The researcher then conducted face-to-face interviews with 43 interviewees located in four of the main cities in Saudi Arabia. Table 5.3 provides descriptive characteristics of these interviewees.

Table 5.3 Descriptive Analyses of the Interviewees

Code	*Full time position and other roles*	*City*
Chairmen		
CH 1	Head of government institutional investor agency	Riyadh
CH 2	Chairman of Bank	Riyadh
CH 3	Large shareholder & Chairman	Riyadh
CH 4	Large shareholder & Chairman of family company	Riyadh
CH 5	Ex-chairman of government controlled company	Riyadh
Chief Executive Officers		
CEO 1	CEO and INED on other boards	Riyadh
CEO 2	Executive board member NED on two other boards	Riyadh
CEO 3	Executive director and board secretary	Jeddah
CEO 4	Executive director NED on another board	Jeddah
CEO 5	Executive board member of family company	Tel
Non-Executive Directors		
NED 1	Employee in government institutional investor agency	Riyadh
NED 2	Employee in government institutional investor agency	Riyadh
NED 3	Employee in government institutional investor agency	Riyadh
NED 4	Employee in government institutional investor agency	Riyadh
NED 5	Employee in Ministry of Finance	Riyadh
NED 6	Employee in government institutional investor agency	Riyadh
NED 7	Employee in government institutional investor agency	Riyadh
NED 8	Executive director in government listed company	Riyadh
NED 9	Large shareholder	Riyadh
NED 10	Large shareholder	Riyadh
NED 11	Executive director in government listed company	Riyadh
Independent Non-Executive Directors		
INED 1	Academic & private consultant	Riyadh
INED 2	Executive director of private management fund	
INED 3	Academic & private consultant	Jeddah
INED 4	Private consultant	Riyadh
INED 5	Private consultant	Riyadh
INED 6	Academic	Riyadh
Board Secretary		
BS 1	Board Secretary	Riyadh
BS 2	Board Secretary	Riyadh
BS 3	Board Secretary	Riyadh
BS 4	Board Secretary	Jeddah
BS 5	Board Secretary	Riyadh
BS 6	Board Secretary	Jeddah
BS 7	Board Secretary	Riyadh
BS 8	Board Secretary	Riyadh
BS 9	Board Secretary	Riyadh
BS 10	Board Secretary	Riyadh
BS 11	Board Secretary and executive director	Dammam
Other		
ACM 1	Academic, CEO of SOCPA, Audit committee member	Riyadh
ACM 2	Academic, Audit committee member	Makah
FA	Private consultant & Financial analyst	Riyadh
SA 1	Official of Saudi Arabian Monetary Agency	Riyadh
CM 1	Official at the capital market authority	Riyadh

Note: The table outlines the interviewees' board roles and the city in which the interviews took place.

Twenty-three interviews were conducted during the months of December 2009 and January 2010 while the rest were conducted between October 2011 and January 2012[41]. The interviews took place in; Riyadh, Jeddah, Makkah Almokarramah and Dammam. The researcher conducted all the interviews face-to-face with one exception, with CEO 5, which was undertaken by phone. The average duration of the interviews was one hour. At the beginning of each interview, the nature of the research was explained and confidentiality guaranteed. The researcher then transcribed all interviews in the Arabic language[42]. For the twelve interviewees who refused to be recorded, detailed notes were taken during the course of the discussions. All of the questions were then transferred to a table with each interviewee's answers summarised and ordered by the questions asked. This method allowed the researcher to get an overall view of the differences and similarities between board members' answers on the various issues discussed. The results of the interviews are presented and discussed in Chapter six of this thesis.

5.5.2 Questionnaires

5.5.2.1 The Role of Questionnaires

A questionnaire is a form of data collection technique whereby each participant is asked to answer to a similar set of questions (Oppenheim, 1992) and it is used here as the second method of collecting data regarding corporate boards practices in Saudi listed companies. The questionnaire is regarded as one of the standard data collection methods in social science (Oppenheim, 1992).

There are many advantages to the use of questionnaires, for example, they are regarded as cheaper, less time consuming than other research tools and easier to distribute among

[41] Due to time constraints the researcher had to do the interview process in to two stages.
[42] One interview (CH2) was transcribed in English as the original interview took place in this language.

different locations. Questionnaires give respondents more anonymity than does an interview which might encourage the free expression of opinions (Collis and Hussey, 2003). Notwithstanding these points, there are a number of well-documented disadvantages with questionnaires such as the misinterpretation of questions, the low response rate and the danger of completion by someone other than the targeted individual (Bryman, 2001).

Questionnaires can include both: open-ended and closed- ended questions. An open-ended question allows the respondent to use his or her own words when answering, while a close-ended format requires the respondent to choose from a given set of answers. The advantages of closed ended questionnaires are that they are easier for the participants to answer, are easier to administrate, to code and to analyse, whilst it does not capture other possibly interesting discoveries that participants may indicate which can be captured with open ended questionnaires (Gillham, 2000). The disadvantages of open ended questionnaires are that they might be more difficult to answer and analyse and they are more time consuming (Oppenheim, 1992; Collis and Hussey, 2003). This study therefore employs a closed-ended questionnaire given the advantages discussed above. However, the final section at the end of the questionnaire included some open ended questions for the participants to share their thoughts regarding corporate governance practices in Saudi Arabia.

After analysing the interview results in the context of the research question and the relevant literature, a set of closed-ended questions were developed. These all used a five point Likert scale[43] asking for selection of the most relevant response. Four open-ended

[43] Likert scaling is an ordinal method used to measure people's attitudes regarding a question (Nachimas and Nachimas, 1996).

behaviour questions were also included in order that the respondents could elaborate their opinions and add relevant information regarding the issues concerned.

The first section of the questionnaire asked for demographic information regarding the role of the respondent on boards and other background information such as the number of years of experience as a board member and other full time roles they might have. The second section aimed to attain respondents' opinions regarding the factors that influence the practices of boards of directors in KSA. The final section was designed to elicit the respondents' views about the factors that influence the roles and responsibilities of boards and board committees. This section was designed to indicate clearly the factors that influence board processes and behaviour in KSA in practice.

The questionnaire was designed in English before being translated into Arabic, the primary language in Saudi Arabia. In order to avoid potential problems relating to the translation process, several steps were considered which was broken into three stages: first, each statement in the questionnaire was translated into Arabic and discussed with several staff and PhD students at the University of Dundee whose native language was Arabic. Second, the Arabic version of the questionnaire was given to PhD students at the University of Dundee whose native language was Arabic to assess whether it corresponded to the English version. Finally, the Arabic version of the questionnaire was pilot-tested[44] with two board members in Saudi Arabia to make sure that the translation process did not lead to any misunderstanding of the questions. As a result of this process several changes were made and the final Arabic version was then ready to be distributed among board members of Saudi listed companies. The final English and Arabic versions are provided in Appendix D.

[44] Oppenheim (1992) argues that questionnaires require pilot in order for the document to serve its purpose.

5.5.2.2 Questionnaire Sample

The questionnaire was targeted at all CEOs and other board members and in Saudi listed companies. The process of distributing the questionnaire started in October 2011. A total of 880 questionnaires were distributed by post to the board members of all (158) listed companies. The information regarding the names of board members was accessed via the Tadawul website on the 5th of October 2011 in order to ensure that those with multiple directorships were not sent more than one questionnaire. The initial number of directors identified was 1052 but the number was reduced to 880 when the input of multiple directorships was dealt with. Table 5.4 details the number of questionnaires sent out across industrial sectors and the respective response rates and numbers for the sample as a whole, the 82 responses represented a rate of 9.3%. The highest response rate was generated by board secretaries (37.8%) while the lowest occurred for chairmen and CEO at 3% and 9% respectively. A similar response rate emerged from NEDs and INEDs of around 21% and 26% respectively.

Table 5.4 Number of Questionnaire respondents from each sector

	Sector	*Respondents/ (Respondents rate)*	*CH*	*NED*	*INED*	*CEO*	*BS*
1	Financial	16/19%	0	4	2	1	9
2	cement & petrochemicals	15/19%	2	5	2	2	3
3	communication & media	5/6.1%	0	1	1	1	2
4	agriculture & food	8/9.6%	0	0	3	0	5
5	Multi & Industrial Investments	14/17.1%	0	2	7	2	3
6	Building, Construction & Real Estate	12/14.6%	1	2	5	1	3
7	Hotel , Tourism transport	4/4.9%	0	0	0	1	3
8	Other	8/9.7%	0	4	1	1	3
	Total sent /Responses	880 / 82	3	19	20	9	31
	percentage %	100 / 9.3	3.6	21.9	25.6	10.9	37.8

Note: The table reports the number of questionnaires sent, response numbers and rates categorised by sector and respondents position.

5.5.2.3 Reliability and Validity of Questionnaire Responses

The notion of “reliability” relates to the extent to which any research tool produces consistent results when used repeatedly (Carminer and Zeller, 1979). There are three ways to measure reliability: the test-retest method; inter-coder reliability; and the internal consistency method (Carminer and Zeller, 1979). Two tests are typically used with the internal consistency method: the split half and Cronbach’s alpha. According to Field (2009), Cronbach’s alpha is the best measure of the reliability of questionnaire responses. Carmines and Zeller (1991, p. 48) define Cronbach’s alpha as:

> “An estimate of the expected correlation between one test and a hypothetical alternative form containing the same number of items”

Cronbach’s alpha shows how well items complement each other when measuring different aspects of the same variable (Litwin, 1995. p. 24). The alpha test takes a value from zero to one. The closer the value is to one the more reliable the results. Field (2009) argues that a value of 0.7 should be regarded as the minimum accepted value. In the present study Cronbach’s alpha was used to measure the reliability of the questionnaire responses, and the resulting score of 0.77 suggests reliability in the questionnaire responses.

Validity assessment relates to whether, or not, a research tool actually measures what it is intended to measure (Carmines and Zeller, 1979, p. 17). The common validity tests take one of three forms: criterion validity; content validity; and constructed validity. Content validity was used for the questionnaire survey amongst the academics and PhD students who took part in the pilot test as discussed previously in this chapter.

5.5.2.4 Statistical Test of the Questionnaire

After coding the responses from the questionnaire data, the data were transferred to the SPSS statistical package. A normality test[45] showed that the data was not normally distributed therefore non- parametric analyses of the responses was used. In particular, Kruskal Wallis and Mann- Whitney tests were used to measure the significance of differences in sub-sample respondents.

Factor analysis is also used in order to reduce the data to a set of components or ‘factors’ extracted on the basis of accounting for a significant proportion of the overall variability in the data (Dunteman, 1989). This method has been used in order to be able to reduce the factors in pursuing the most common factors influencing governance practices.

5.6 Summary

This chapter has outlined the main methodological issues relevant to a study of this type, including a detailed outlining of the Burrell and Morgan’s (1979) framework. Although this framework has its limitations, it reviews a common basis for setting out the framework for empirical research in the social sciences. In this context, the discussion in the chapter explained the choice of an interpretive paradigm for the present study. The chapter also discussed the two main research methods: (i) interviews; and (ii) questionnaires which are used to gather the empirical data and details how these methods are suitable in the context of the researcher’s methodological view and in answering the research question regarding the factors that influence corporate governance practices of KSA-listed companies. Having presented the context of the

[45] The Shapiro-Wilk test for normality indicated a significant result rejecting the null hypothesis for the data being normally distributed.

study in terms of extant literature, theory and methodology, the empirical work is now presented, beginning in the next chapter with the interview findings, followed by the questionnaire results in chapter seven

Chapter six: Semi-structured interviews

6.1 Introduction

The previous chapter discussed the methodology and methods used in this thesis. The present chapter details and discusses the interviewees' perceptions regarding corporate governance practices in Saudi-listed companies, by focusing on the factors that influence these practices, especially those related to the board of directors. The chapter starts with a description of the interview process and interviewees. Section 6.2 discusses the adoption of the corporate governance code in KSA. Section 6.3 then discusses the factors influencing board composition and the selection process, while Section 6.4 focuses on the factors influencing board committees' composition and selection processes. Section 6.5 focuses on the factors influencing the role of independent non-executive directors (INEDs), while Section 6.6 highlights factors that influence other governance practices. Section 6.7 concludes the chapter.

6.2 Adopting the Saudi Corporate Governance Code

The introduction of the Saudi Corporate Governance Code emanated from the Saudi stock exchange regulator, the capital market authority (CMA). This move was widely seen as a response to the market crash in February 2006 (Falgi, 2009), when the Saudi AMF price index which had reached 878 in 2005 dropped to 404 in 2006, a loss of more than 50% (Zaher, 2007). According to interviewee CM 1, an official at the CMA, the main motivation for the code was a desire to restore investor confidence by adopting the corporate governance practices of other developed countries as a normative isomorphic process. Saudi Arabia is classified as a civil law country (Koraytem, 2000) and in such environments investor protection laws are relatively weak (La Porta et al., 1999). In this context interviewee CM 1 noted:

> “We could not propose a code that is very specific and detailed; we have indeed developed the code from other countries and organisations such as Cadbury, SOX and OECD, and with the help of international consultants, and applied the comply or explain approach because one size does not fit all. Companies differ in their financial and technical ability to comply. We needed a broader comply or explain view that would give companies more flexibility in adopting the CMA framework, while allowing for the development of firms own internal corporate governance rules.”

Another official (interviewee SA 1) gave his view as a regulator for the financial sector:

> It was very important to look at the corporate governance practices in developed countries before issuing our own corporate governance code into issuing new regulations

The “comply or explain” approach adopted is evidence of the influence of the UK approach to corporate governance, thus mimetic isomorphism my be evident at the national level, as the regulatory body needed to add legitimacy to its governance structure after the financial crisis in 2006. Uncertainty may have caused the CMA official to model directly a corporate governance regime that follows the UK “comply or explain” approach.

After the KSA corporate governance code was issued in 2006, the CMA began to mandate particular sections of the code, but many remain voluntary. The interviewees in the present study argued that this voluntary approach was not appropriate in the Saudi culture and severely weakened its impact on corporate governance practices. For example, BS 7 noted:

> “In our society people need to be told what to do, you cannot give them regulations that requires time and effort and then tell them you may apply them on your company or not, of cores they will not fallow such regulation.”

Interviewee CH 1 also stated:

> "The voluntary approach of the corporate governance code weakened its implementation and made companies not take such regulations seriously; the code also included some of the voluntary regulations that contradict with the company law and this also weekend it."

Two interviewees indicated that their firms had implemented a corporate governance code before the issuance of the CMA corporate governance code. Interviewee BS 1 noted that his company was going through a privatisation process and having a corporate governance code helped the company in this process; he explained:

> "When the company was going through the privatisation process, there were many discussions between board and management regarding restructuring elements of the company. After extensive discussions with a foreign consultant, the answer was to establish an internal corporate governance code. This also helped the CMA in developing the KSA code."

The company's chairman who at the time made the decision to introduce a corporate governance code explained that the initiative was taken after looking carefully at companies in other countries that had experienced a transition from state-ownership to public-listing; with the help of international consultants, the firm reached the conclusion that a corporate governance code, based on internationally-recognised best practice, was desirable reflecting mimetic influences on practice.

The interviewee further revealed that the adoption of a corporate governance code was effectively a result of the technical uncertainties confronting the company during the privatisation process; this example is therefore consistent with the institutional theory view that companies conform to institutional environments as a result of uncertainty. In particular, mimetic isomorphism is evident in this company's decision to adopt a corporate governance code (DiMaggio and Powell, 1983; Powell, 1991). The case events are also consistent with previous literature which concludes that when companies move toward privatisation they require new governance structures in order to successfully accomplish this process (Cuervo and Villalonga, 2000).

Many of the interviewees stated that their companies had adopted the corporate governance code issued by the CMA in 2006, including the mandatory requirements, such as the adoption of an audit and remuneration committee. However, companies appeared to vary in the extent of their adoption of voluntary provisions; company size, sector, ownership structure and technical and financial capabilities were all noted as factors that could influence the level of compliance[46]. For example, Interviewee NED 9 noted:

> "Companies cannot adopt corporate governance equally, some companies see the value advantage when adopting corporate governance and others do not; some other companies, such as family-controlled ones, will never adopt corporate governance until it is mandatory."

The interviewees also argued that introducing a (western) code would not necessarily mean adoption in the same manner as in Western countries themselves as environmental and societal factors are relevant and differ markedly in practice. In this context, interviewee INED 1 stated:

> "The code, in itself, is not the main pillar of governance, it is the society and how they would accept implementing such practices; in order for these codes to be effective, the society needs to change and adapt, before implementing governance practices. Society still has not yet accepted the concepts of corporate governance. "

[46] The extent of adoption of internal corporate governance code varied; as many large companies had introduced these, but small or newly-listed firms tended only to adhere to the CMA code.

Interviewee CH 1 noted his dissatisfaction with implementing any western regulations as they are not always suitable to the Saudi context, he argued that:

> "We should not jump to implement any regulations that seem to be 'best' practice in western countries, our society is different and therefore we should account for this difference by measuring the suitability of these imported regulation before implanting them, I do not think that they [the CMA] have done a good job to have a corporate governance code that suit our society and our needs."

A number of interviewees indicated that soon after the introduction of the CMA code, it became important to follow the code especially the mandatory provisions as the CMA had issued sanctions on companies that did not adopt them reflecting coercive isomorphism. For example, interviewee BS 3 stated:

> "The CMA mandated that companies should adopt the code or sanctions would be applied, it was very important for us not to have any sanctions on our records as a listed company."

Interviewee NED 11 also indicated that his board re-organised the composition of the board as part of the codes requirements to have independent directors on the board, he explained: 'after the code was introduced we had to do some changes to our board structure including having independent directors'.

Thus, Saudi listed companies have adopted the corporate governance code as a result of coercive isomorphism deriving from pressures from government regulatory body (CMA). The CMA regulatory body seemed to be influenced itself by the governance model in developed countries such as the UK, and these results are therefore consistent with the view that emerging economies seem to adopt an 'Anglo-Saxon' corporate governance model (Reed, 2002)[47]. Thus, mimetic isomorphism seems to be prevalent in

[47] The relatively late adoption of a corporate governance code in the KSA may suggest that governance reform took place primarily for legitimacy reasons rather than the need for economic efficiency (Enrione et al., 2006).

the way corporate governance has been adopted by the regulator, as stated by interviewee CM 1, as the Saudi codes provisions' are very similar to those in developed countries. The CMA then issued the KSA corporate governance code and mandated many of its sections gradually, thus reflecting coercive isomorphic pressures on KSA-listed companies. While on the other hand, a few other companies that have developed their own corporate governance code prior to 2006 also reflected a mimetic isomorphism as a result of modelling themselves on other organisations that were external to the Saudi context[48].

The findings of this section demonstrate part of a worldwide convergence towards an Anglo Saxon corporate governance code through mimetic isomorphic process. Having looked at the broad issue of pervasive codes, the analysis now follows on specific governance issues starting with the composition of the board of directors.

6.3 Board Composition and Selection

Board composition is defined as the ratio of executive directors (EDs) to non-executive directors (NEDs) on the board (Shamsher and Annaur, 1993). Virtually all corporate governance codes emphasise the need for a balance between EDs and NEDs, in order to ensure 'better' functioning of the board (Cadbury, 1992; OECD, 2004; FRC, 2010; SOA, 2002; Lorsch and MacIver, 1989). As discussed in Chapter Two of this thesis, the literature on board composition varies (Hermalin and Wesbach, 1991; 2003; Baysinger and Hoskisson, 1990; Dalton et al., 1998), and so this section examines practices in KSA.

[48] The results also confirm previous studies that have found evidence of corporate governance codes being adopted in an attempt to improve governance at a national level (Aguilera and Cuervo-Cazurra, 2004).

Two thirds (29) of the interviewees stated that their board is composed of a majority of NEDs - in most cases only NEDs; others were mainly from family-listed companies. The interviewees argued that having a majority of NEDs has been the norm in the KSA for some time, even preceding the publication of the CMA code. However, very few of the executives are board members in Saudi Arabia as many of the board members are owners acting as NEDs to “keep an eye on their investment” (NED 9) and they do not hold executive positions in these companies. Some of the interviewees argued that previous regulations restricted executives from becoming board members[49]. However, this perception came from board members and executives in government-controlled companies.

These practices are obviously different from those found in developed countries’ boards such as in the UK and US, where the ownership structure is dispersed (Aguilera, 2003) and boards of directors still have large numbers of executive directors (Forbes and Watson, 1993). Interviewee CH 1, who represents the government investment by being on three listed companies’ boards, stated in this regards that:

> “In all three boards that I am on, we never had CEOs or any other executive director on the boards. He [the CEO] only comes and gives the presentation and answers our questions and that is it, he has no other role on the board.”

Interviewee CH 3, who is a large shareholder, argued that:

> “A CEO is a paid employee who should present results to the board on the progress of the company; why should he be on the board? Who is he? What percentage of ownership does he represent? These things need to be taken into account if he is nominated to the board.”

[49] To the best of the researcher’s knowledge no regulations in KSA has stated that executives are restricted from taking up board membership.

Some interviewees perceived having a CEO on the board as a threat to control, as the information advantage would always be in the hands of the executives. Interviewee NED 4 noted here that "If a CEO is on the board, he can be more powerful and can influence the decision, as he sees himself in competition with other members." Relatedly, the interviewees agreed that ownership structure was the main driver of board composition, therefore if a CEO was on the board, it was typically because of his level of shareholding; Interviewee INED 5 noted the power that came from this type of setup thus: "The people on the board are always the owners and those that they choose to have with them." It is clear that many of the interviewees, especially those from government-controlled companies, felt that boards are, and should be, composed totally or mostly of NEDs that represent key shareholders. This finding likely reflects these interviewees own situations, as previous studies show that board composition in government-controlled enterprises generally involves NED majorities (Chizema and Kim, 2010). Although some interviewees stated that it was against government regulations to have an executive on the board, and that the presence of executives on the board would influence the monitoring and evaluation of top management, the findings are consistent with existing literature in developed countries (Yermack, 1996; Fleischer et al., 2002). However, in the KSA no company law, corporate governance code or any other regulations prevent executive directors from being nominated to the board.

It was argued that when trust is established, the CEO can be an important element of the board as their knowledge and ownership will be an advantage to the company. Interviewee CH 4, who is chairman of a family-listed company, stated in this context:

> "The current CEO is one of the directors on the board and owns a stake in the company. He knows everything there is about the company; he treats it as one of his children. I trust his intentions and his ability. His presence on the board is essential."

While Interviewee INED 4, from a company where the CEO was on the board argued:

> "The board does not choose the CEO to be on the board unless it trusts him and is confident about his judgment."

Interviewee CEO 1 noted that:

> "I do not hold a substantial share in the company and I am on the board. Mr X, who is the controlling shareholder, also selected me to be on the board of another listed company in which he has an interest. I do not think he would have done that if he did not trust me and my ability, having been with him for 25 years."

Finally, and although not mentioned explicitly, trust appears to underpin the views of Interviewee CEO 2, thus:

> "Most of our board is composed of the owners; I am the youngest owner amongst them and have most experience in this industry, and therefore they asked me to run the company."

Thus personal relationships appear to influence the practice of who is invited to be on a board. Another interviewee explained how the historical context of Saudi business activity influenced board composition:

> "When Saudi Arabia started to develop, there were not many people who were knowledgeable and experienced but they had the capital. They would start the main project by bringing professionals to work for them and the latter would mostly oversee the business, until it became a large corporation; the owners would be on the board, overseeing management who worked for them." (INED 3)

From the above evidence, it is clear that the institutional norm has been for owners (NEDs) to sit on the board, often on a board with no executive directors, other than CEOs (in some family companies) and those who had earned the trust of the controlling shareholders from this personal relationship and network of actors.

Having a majority of NEDs on the board also seemed rooted in the corporate history of the Saudi context. Thus, the historical, social and legal context of the business environment in Saudi has embedded the organisational logic of a board composed of a majority of NEDs, and this tendency is consistent with institutional theory view that board composition is likely to be influenced in practice by the historical and environmental institutions within its social context (DiMaggio and Powell, 1983; Lynall et al., 2003).

6.3.1 Selection of NEDs and INEDs

The nomination process at AGMs is mainly driven by the ownership structure of the company (Falgi, 2009). There are three main types of controlling owners of Saudi-listed companies, these being: government; family and other large controlling shareholders[50]; and other companies with dispersed ownership. This is consistent with other evidence that ownership is concentrated in the hands of family or governments in most developing countries (La Porta et al., 1998, 1999) including more recent evidence on the KSA (Falgi, 2009). Many of the interviewees agreed that in government-controlled companies, NEDs and INEDs are nominated and selected by the government. The main government bodies that are involved in the selection process are: the General Organization for Social Insurance (GOSI); The Public Pension Agency (PPA); and the Public Investment Fund (PIF). All three government bodies nominate board representatives in most of their investee companies. According to the interviewees, there is an implicit agreement that each government agency representative at an AGM votes for the other's nominated representative when they have shares in that company, with the result that the board concerned becomes controlled by the government.

[50] A company may be controlled by one, two or three of the main controlling shareholders or others such as foreign shareholders and other companies as described in Figure 2.3 in Chapter two.

Interviewee CH 2, who is a chairman of a financial institution in which all three government agencies have substantial shares, stated in this context that:

> "The institutional investors that are on my board communicate with each other… "Vote for my guy, I will vote for yours", then they are on the board."

Most of the government representatives nominated are officials working within the government's institutional investor agencies. Interviewee CH 1 explained why they elect representatives in this way:

> "We always try to have our people, those we trust, on the board to know what is going on in these companies and they come back to us before and after board meetings, to discuss some of the decisions. We do not try to go out of the way and nominate someone not from the agency, as he might get carried away and we have no control over them."

However, many of the board members interviewed who did not represent government agencies argued that government representatives nominated to boards are often inadequate[51]. In some cases, where government agencies own shares in companies controlled by families or other large shareholders they nominate a representative to look after their interests, but in other cases, their voting power is not enough to secure a board seat -usually when other family and large shareholders' voting power would exceed that of the government-. Family and large shareholder ownership may be more substantial, giving them an advantage in gaining control over all board seats by forming a coalition from their network of actors that results in the government agencies not gaining any board seats. In terms of joint action, interviewee FA noted:

[51] This issue is returned to later in this chapter.

> "It's all about groups that lobby with each other; when I own 20 % of shares and my friend also owns 20% of a company's shares, I vote for him and he votes for me, so we can control four board seats."

Interviewee NED 9, who is a large shareholder, made the same point but explained that NEDs and INEDs are selected based on trust and mutual understanding arising from their network of actors:

> "Most of the boards want to work with people they know and trust; if you and I do not get along with each other, we cannot work together, therefore, when people have trust and rely on one another, they are able to create a coalition, not to assume bad faith in the intention of their coalition."

However, eight of the interviewees argued that if the intentions of the individuals were honest and pure it made no difference if they were family and friends or not. Here, interviewee BS 7 noted that:

> "When the company went through an IPO one of the new controlling shareholders' requirements was for the current controlling members to stay on the board; if you want to make a judgment on boards that have coalitions you need to look at the history of the company and that will show you if their intentions are pure or not."

Interviewee CEO 2 commented from experience on the issue of trusting those from the same network, noting that:

> "On our board we have a large shareholder who controls two other listed companies and he asked me to join him on his other boards. Once trust has been established, that is the one criterion that you can count on."

As did Interviewee BS 7:

> "We announce in the newspapers the opening of a board seat as it is a regulatory requirement. But the board of our company is composed of the owners and they choose who they want because it is their company, and they are always selected based on trust."

While interviewee CH 4 spoke in terms of the principles involved thus:

> "It is trust that comes first when you have to nominate someone to the board; you do not want someone to share decision- making with you unless you trust them; it's not that you disregard their qualifications but you first base your decision on trust, then qualification."

From this perspective, it is clear that many board members happily bring friends and relatives onto their boards, with trust arising from their social networks being regarded as an important social norm and value in the Kingdom. From an institutional perspective, the key factors that influence the selection process of board members are ownership and alliances arising from trusted networks. As interviewee INED 6 noted:

> "Bringing those who are in your circle of trust is part of our history and practiced to the highest political level. In the council of ministers, the new formation that was announced this year was composed of members who are from the leading political ruling families' circle of trust. I know one of the new ministers, he is an academic and has nothing to do with the ministry that he has been appointed to, but he is there because he is from their circle."

Interviewee INED 1 explained how these values were promoted in Saudi Arabia, emphasizing that they were often more important than experience and qualification:

> "Arabia was a desert and we were forgotten and isolated for hundreds of years before oil was discovered, as Western countries were not interested in empty deserts. In this period of isolation, resources were scars in the environment and people became focused on survival; from that point, values were demolished, people became focused around what protected them and fed them. They grouped around the tribe and clan and religion; this has influenced how we have become as a society today and board members are groups from the same society."

6.3.2 Selection of the Chairman

The interviewees all understood that at the first board meeting after their nomination at an AGM, the directors selected a chairman from amongst them[52]. The interviews revealed arguments that the factors that influence the chairmen's selection relate primarily to the ownership structure of the company and social and cultural factors from networks of actors; these are now discussed.

When ownership of a Saudi company is heavily represented by government agencies, the chairman is appointed by the government, with rubber-stamping of the nomination. Interviewee NED 5, who sits on the board of a bank, stated in this context that:

> "We [the government representatives] were told by our government agencies that the chairman of our board would be Mr "X". We did not vote, nor did we nominate him, we went and just agreed as did the other government agencies that are on the board with us."

Interviewee INED 2 noted that:

> "In the banking sector especially, the government nomination goes to the highest official, "the ministry of finance", and he makes the decision."

An insider perspective was given by Interviewee CH 5, the former Chairman of a listed company, who revealed that:

> "The board nominated me as chairman due to government influence; the government owns more than 50 per cent of the company and they recommended me to be the chairmen and the board agreed."

It is clear that the three government agencies mentioned earlier (the GOSI, the PPA and the PIF) have a significant influence on the selection of both the members and the

[52] None of the directors are elected to the role of chairmen at the AGM itself.

chairman of the board. However, even in situations where the government is not a controlling shareholder, but as representation are on the board, ex-ministers and high ranking government officials would regularly be elected to the position of chairmen. As Interviewee CEO 2 argued:

> "There is a cultural influence on the board; our society still has embedded in it the tribal essence of having the leader of the tribe, which is still embedded in our culture, so when a person that has these characteristics is on the board, he would be the chairman."

Interviewee NED 3 rationalised this tendency from an external perspective, thus:

> "We have an ex-minister as the chairmen of our board and his high position gives more legitimacy to the board; it would be difficult to have someone else as chairman, as it would not look good for him personally or for our board."

The negative impact of this behaviour was touched on by interviewee INED 2, who argued that:

> "The values that have been seen to be important for the chairman's role are different in our culture, the criteria that we expect in a chairman is more related to who he is and his external position in society and not his experience or qualifications; it is more political."

While interviewee NED 10 commented as follows:

> "Unfortunately, our culture still implies that you need someone who has power and is well known in order to run things; that's why we have a prince as our chairmen. We understand that our culture respects them. It's not only our company but many companies do the same thing."

Interviewee CEO 1 also indicated that it is most likely that a company would extend an invitation to a highly regarded member of the province in which the company is located such as the prince of the province to join their board as the chairmen out of courtesy to him and also that the company may need his power in office.

Another chairman of a listed company is a member of the royal family and, as the board secretary of this company, BS 4 stated:

> “The board of directors in our company is composed of many individuals, one of whom is a member of the royal family, who would be better to nominate as the chairman? We need someone to add to the company’s image and to represent us positively in the eyes of the public.”

Thus, the influence of social status and those with networks in high society influence chairman. Having an individual with a high social position as the leader of a group has been evident in the tribal values of the Arab culture and one of its main characteristics with every tribe having a leader (Shakh) that other members of the tribe seek his guidance and protection (Al-Ghuthami, 2009). The level of conformity of board members to cultural symbolic logics has led to selecting high status and prestigious individuals among them to be the chairman. This evidence is consistent with the institutional view that organisations conform to the institutionalised process in order to increase their legitimacy and their ability to survive in a highly institutionalised setting (Meyer and Rowan, 1977; Scott, 1991; 1995).

In the case of family-controlled companies, the chairman is usually the founding-owner of the company, even when the firm is listed. Interviewee INED 1 argued that the first generation would always regard the company as their own, even after becoming publicly-listed and, whether they adopt the corporate governance code or not, the decisions are always made though the founder who is, in practice, usually the chairman. Interviewee CEO 5 who is a CEO of a family-controlled firm noted in this regard that:

> "The chairmen is our uncle, he does have a large share in the company but he is the chairman because he is regarded as a father to all of us who are younger than him; also he will be heard in the boardroom and no other family members can go against him, therefore his presence as chairman gives balance and structure to the boardroom."

From an institutional theory perspective, the firms make choices that are shaped according to the social context; organisational arrangements would thus be based on social and cultural norms and values. This tendency may have influenced the high regard for older family members and people of 'high status', whether from the royal family or government, such as ex-ministers and the elite of society that impact on chairmen selection in the KSA. As a result, board members feel obligated to appoint people of high status to the position of chairman as this has been the accepted norm in Saudi society, in order to enhance the appearance of an organisation in a traditional-based social context, and thereby reflecting a community of practice of having a high profile chairman. The interview evidence more broadly indicates that institutions have formed a community of practice in the selection process and composition of board of directors in Saudi listed companies.

6.4 Board Committee Composition

The international community has given much attention to the role of board committees and the presence of independent directors on them (Turley and Zaman, 2004). This section discusses the issue of board committees that have been in Saudi listed companies.

The interviewees noted that board committees typically established by boards of listed companies in the KSA, are audit, executive, and remuneration and nomination committees. Both audit and remuneration committees are recommended in many countries' corporate governance codes (Pierce and Waring, 2004). Surprisingly however, some interviewees indicated that they had also established committees with titles such as 'governance and social responsibility'. The main factor that influenced boards in establishing such committees was the views of board members themselves; the companies that had these voluntary committees in place often had common board members, who were typically also members of these committees. It seems that individual board members who serve on different boards have influenced the latter to adopt voluntary board committees, while multiple directorships seem to result in boards imitating the structure of others, in line with the notion of mimetic isomorphism (DiMaggio and Powell, 1983). Homogeneity in board structures results, consistent with the evidence of multiple directorships influencing companies to adopt audit and remuneration committees (Carson, 2002). Furthermore, board members who were interviewed within specific sectors, such as the financial sector, seemed to have common board committees such as Sharia, investment and risk committees, while several other factors identified in the literature did not seem to influence listed companies to adopt board committees such as in developed countries (Collier, 1993).

Only three of the interviewees () could point to any special procedures that were followed in allocating board members to any of the committees. In practice, the process is instead mainly reliant on the opinions of the chairmen and, more recently, the remuneration and nomination committee[53]. Interviewee INED 5 noted: "The chairman would give suggestions regarding who would be on which committee and most of us would agree." CEO 1 cited his personal experience as an INED on another board:

[53] Selection of board members to board committees has been stated in the corporate governance code as a role to be practiced by the remuneration and nomination committee (Article 15 CG code).

"When the board noticed that I criticised too much, the chairman asked me to be on the audit committee."

The interviewees also expressed the opinion that no individuals would like to put themselves forward or promote themselves for a board committee position as culturally that was not accorded practice. Interviewee NED 9 stated in this context that: "In our society, no one would put himself forward to be on a board committee, as it is regarded as impolite." Similarly, interviewee NED 3 commented: "We like to be nominated by others, it is seen as unpleasant if done otherwise."

The interviewees also argued that government agencies, when represented on boards, are typically also members of committees, regardless of their background or qualifications. As part of unofficial agreements, government agencies on boards would also be on each of the key committees. Interviewee INED 2 explained that:

> "When different government agencies invest in a company and have a representative on the board, it is already part of the understanding of the board that they should be on board committees, not because of their qualifications but in a monitoring role for their government agency, to ensure that procedures are followed, regardless of whether these procedures are processed correctly or not."

Interviewee NED 1, who is a newly appointed government official, stated that:

> "The chairman nominated me to the audit committee; I then indicated to the chairman that my experience and knowledge is not in accounting but in law; he then argued that he would like all board members to be part of board committees."

It seems that government agencies in the KSA have institutionalised the practice that government representation should be included on board committees, regardless of the qualifications or background of their representatives. This is not surprising, perhaps, given their percentage of ownership, and the fact that they represent government investments. As such, this appears to suggest a degree of coercive isomorphism certainly in so far as the spread of representation is concerned.

While the selection process for the chairmanship of board committees is not subject to any specific requirements or procedures for listed companies, some of the interviewees stated that the oldest member of the committee is often nominated to be chairman of the committee. Interviewee NED 9 explained as follows:

> "You always respect those who are older than you; it's part of our culture, therefore when we selected the chair of the audit committee, it was based on respect for him and not on his experience or qualifications; I cannot be the chair of the committee while there is someone who is older than me on the committee; it is something that we have as habitual in our society."

Interviewee I NED 11 noted similarly that:

> "Selecting a chairman of the committee is like giving more regard to those who are elder to sit down before others when you enter a room together, and also at dinner they would always be put forward to dine first, the chairman of a committee is the same, it is a matter of respect to them."

From an institutional theory perspective, it seems that cultural values influence the way directors are elected to board committees, with interviewees citing the rarity of someone nominating himself to a board committee. The selection of the committee chair is also clearly influenced by cultural values given more regard to people who are older and more senior as noted above. However, this tendency contradicts the very essence of corporate governance, especially relevant in relation to audit committees, where the most experienced and qualified individuals should act as chair (Aldamen et al., 2012). Thus, cultural norms in Saudi society are critically important in influencing committee members to nominate a chairman. These findings offer new insights into the factors -within an institutional context- that influence the practice of board committees in developing countries, with social and cultural symbolic carriers playing a significant role in the process. The following section now discusses other committees the audit committee followed by a section on remuneration and nomination committee.

6.4.1 Audit Committees

The establishment of audit committees in Saudi Arabia has been mandatory since the Ministry of Commerce issued a resolution in 1994 requesting all public listed companies to establish one (Al-Twagiry et al., 2002; Al-Moataz, 2003; Al-Lehaidan, 2006). The proportion of companies that had established such committees up until 1994 was low; in fact before 1994, no Saudi company had established any board committees (Piesse et al., 2012). By 2001, five companies had an audit committee (Al-Qarni, 2004.) but the composition included executive directors (Al-Moataz, 2003). The interviewees argued that the law have not been enforced since 1994 and the monitoring role of the regulator was weak therefore companies have effectively been free to ignore it. For example, Interviewee ACM 2 noted that when he joined a company’s audit committee, they had just established the committee, and no internal audit department existed; he claimed that the regulatory and monitoring of listed companies was weak, and this was perceived because no enforcement mechanisms were in place to ensure that such committees were established, and hence there was no coercive isomorphism.

6.4.1.1 Establishing the Audit Committee

The interviewees were thus asked why they had established audit committees. Nearly 64% of the board members (twenty-seven interviewees) stated that the reason was to comply with the regulations, although this in itself raises many concerns, as boards may have only established audit committees as a symbolic ritual, conforming to recent mandatory requirements in 2006 and not for the governance benefits that they offer (Spangler and Braiotta, 1990). Other interviewees argued that some of the board's roles and responsibilities were allocated to the audit committees because the board only met four times a year, which was not enough to exercise board responsibilities. Surprisingly, only board members who were academics and experienced in accounting and auditing argued that the audit committee played an important part in ensuring the well-being of the company, by exercising roles such as recommending the external auditor and evaluating both the internal control system and the reliability of the financial statements.

The KSA corporate governance code stated the roles expected from the audit committee[54]; this includes a member of this committee having "accounting knowledge." Some of the interviewees argued that the term "accounting knowledge" is too broad and not adequately defined in the code; as a member of an audit committee, ACM 2, who is also a qualified auditor, stated that:

> "The CMA code states that an audit committee should be composed of at least three members, at least one member having accounting knowledge; this is a broad definition and anyone can define it differently; someone could have only an elementary school degree and say "I have 'accounting knowledge'" …every company is saying they have in their committee someone with "accounting knowledge" and they don't."

[54] *Via* Article 14 of the code.

This interviewee also noted that the board of the company contacted him in order to establish the audit committee and he commented in this regard that: "When I joined the audit committee there were no charters or mandates or anything. I then had to establish everything from scratch, to set out the role of the audit committee."

From an institutional theory perspective, it seems that KSA boards have been coerced by the formal requirements to establish an audit committee, but this implies coercive isomorphism, as many of the interviewees argued, the board adopted these structures as they were mandated by the regulatory authorities decoupling them from policy.

The interviewees' comments suggest that some boards have formed audit committees composed of a majority of external members[55], with fewer members from the board. There is no specific requirement in the KSA corporate governance code for members of board committees to be members of the board of directors, as is the case in many other countries (e.g. in the US via SOX, 2002). Nine of the interviewees noted that a more specific corporate governance code issued by the financial sector regulatory body SAMA states that audit committees within the financial sector should be composed mainly by those who are not members of the board of directors, as well as stipulating that the ratio of external audit committee members should be greater than the ratio of NEDs on this committee in order to ensure the independence of the audit committee.

The interviewees agreed that having an audit committee composed of external members might help in ensuring the independence of the committee, although some suggested that these individuals' independence might be compromised by the presence of large shareholders. This loss could be critical, as the audit committee's ability to monitor management relies on the independence of its members (Sommer, 1991; Daily and

[55] External members are those who are on board committees, but are not part of the board of directors.

Dalton, 1992; Beasley and Salterio, 2001). Interviewee INED 1, who is a member of an audit committee of a bank, noted in this context that:

> "I was asked by the CEO, who is also the controlling shareholder, to give him information regarding an issue on the committee's agenda; I requested for him to join the meeting and stay with us until we finished the meeting, as our board recommendations should be announced first to all shareholders. The next year, I was asked to resign, with the reason given that they had five members and they intended to reduce to four. I know, however, it was for trying to stay independent. The large shareholders have everything in their hands and it is hard for someone to stay on the board and still be independent."

It is clear that an active desire on the part of some NEDs to stay independent may create the risk that controlling shareholders would replace them through challenging those with whom they have personal relationships. Contrary to the findings of Bronson et al. (2009), who argue that the presence of independent directors is sufficient for audit committees to be effective, the evidence here suggests that, in the context of concentrated ownership firms, the non-involvement of large shareholders is also necessary.

Another interviewee who served on an audit committee insisted that his committee should be completely independent from the board, setting out the following reasoning:

> "My condition in accepting audit committee membership was to ensure it was composed of independent members from out of the board, with no exception. This is because boards are filled with affiliated directors, there are no independent members on the board and I do not trust having such members with me on the audit committee; they might influence decisions made, therefore, I have more trust when the audit committee is composed of external members." (ACM 1)

Interviewee INED 4 outlined his frustration about the lack of power of audit committees when large shareholders are present:

> "It is difficult to argue with them, even although you are regarded as an independent director; you know that they make all the decisions so what would be the point, you just give them your advice, and it's their choice to take it or leave it."

It seems that even though most corporate governance codes recommend having an independent audit committee (SOX, 2002; CMA, 2006; Kings, 2009; FRC, 2012), the interviewees expressed the opinion that, in the Saudi context, the ability of 'independent' directors to act in such a way is heavily compromised, especially when large controlling shareholders are present on the board. Thus, in the context of Saudi Arabia large shareholders prevent the independence of audit committee members; thereby hamper the effectiveness of the audit committee as control is paramount.

From an institutional theory perspective, these findings suggest that the adoption of audit committees and independent directors by Saudi firms may provide legitimacy but not necessarily improve effectiveness (Meyer and Rowan, 1977).

The interviewees argued that the presence of (unqualified) board members -who in some cases are also large shareholders and government officials- harms the effectiveness of the audit committee. Interviewee CEO 5 noted here that:

> "The government representative in our board is a government official who is inadequate for the required role. The role they play on the board is to report back to their government agency; the problem is that they are also on board committees. They think they have the right to be on them because they represent the government; if they were qualified to be on the audit committee, I wouldn't mind, but the problem is that they are not. How can this committee be effective in its roles?"

Interviewee NED 9 was unequivocal in arguing that:

> “The government officials who are on our board only seem to contribute silence; I have never heard them talk or discuss anything of value; they are only on the board in name but contribute little.”

However, two of the interviewees argued that the government officials on their audit committees had sound financial knowledge and were very effective. Interviewee CEO 2 explained the involvement of a government official on his board as follows: “Mr. X is highly qualified, as his background is in auditing and he is very effective in his role in the audit committee”. Thus it seems that the level of engagement of government officials, who are on board committees, reflect the qualification levels of these individuals. As was argued in the previous section, government agencies have effectively coerced firms to appoint their representatives as members of board committees, and has resulted in some companies having government representatives who are unqualified for the audit committee role; as interviewee NED 1 explained, he was unqualified to be on the audit committee but the chairman selected him to be on this committee.

One a more positive note, the interviewees suggested that some audit committee had representatives of the Saudi Arabian Organization for Certified Public Accountants (SOCPA) as a member; hence reflecting a different institutional logic. Interviewee NED 4 explained in this context that:

> “Usually we do not meet with the external auditor on a regular basis; after noticing the recommendations of the corporate governance code and looking at other companies’ practices, we asked a member of SOCPA to join the audit committee; we were engaged with many issues, although mostly I did not understand because my background is not in accounting.”

SOCPA has played a normative role in influencing Saudi companies’ audit committee practices; some large, listed organisations have invited SOCPA members onto their audit committee and this practice seems to be spreading with a competing institutional logic to the dominant logic. Interviewee ACM 1, who is the head of SOCPA and an audit committee member, explained the role of SOCPA and audit committees as follows:

> "We have conducted several workshops in three major cities in Saudi Arabia in the past year, to promote guidelines and understanding of audit committee's roles and responsibilities, as previous regulations, including the corporate governance code, have been too broad on this matter."

Some of the audit committee members interviewed noted that their firms had approached SOCPA as an authoritative body with the potential to help with organising audit committee operations in the future; interviewee ACM 1 indicated here that:

> "Companies approach SOCPA as it is regarded as the umbrella organisation for the accounting and auditing profession in KSA. the efforts we do in educating audit committee members has made companies approaches us. Therefore, I have recommended some of our members to these companies."

From an institutional theory perspective, coercive isomorphism is evident in audit committees practice, via the legal and regulatory influences of the corporate governance code. Coercive isomorphism is also evident in audit committees within specific industries, such as the financial sector where the committees seem to be more homogenous, as a result of institutional pressure of the regulatory authority, SAMA resulting in a different community of practice in the financial sector. Normative isomorphism is also evident in audit committee practices with the influence of professional bodies such as SOCPA leading some audit committees to approach it in order to get SOCPA members to join audit committees resulting in a new institutional logic. The findings also indicate that adopting audit committees practices are decoupled from their material carriers. Therefore the broader social and cultural environment is important for the audit committee practice (Aguliera et al., 2008). The findings thus contribute to the corporate governance and audit committee literature, by identifying the environmental and institutional influences that affect the practice of audit committees (Turley and Zaman, 2004) especially the impact in the Saudi context (Al-Lehedan, 2006).

6.4.2 Remuneration and Nomination Committee

One of the recommendations of the Saudi corporate governance code is for company boards to establish a remuneration and nomination committee with sufficient independence to provide important checks on concentration of power at the top of the firm[56]. This type of recommendation is included in codes elsewhere (Cadbury, 1992; SOX, 2002; FRC, 2012), but in developed countries the recommendation is typically to establish two separate committees on remuneration and nomination (SOX, 2002), whereas the Saudi code suggests combining the two in to just one committee. Thus it seems that the Saudi regulator has adopted a normative governance code to suit its own environment.

At the first interview stage, in early 2010, seven of the interviewees noted that their boards had established a remuneration and nomination committee, while the remaining interviewees indicated that their boards had not; these findings are consistent within previous studies that few Saudi listed companies had established remuneration and nomination committees by 2009 (Piesse et al., 2012). While the interviewees in companies that had not established such committees noted that the relevant tasks were performed by the executive committee. Interviewee CH 1 explained that this occurred

[56] Article 15 of the CMA Corporate Governance code, Appendix A

because executive committee members were closer to management and, thus, more aware of how to evaluate them. This practice had a number of implications, with some companies running executive committees composed of executive directors. Interviewee BS 2 noted that the chairman of the executive committee was also the CEO; clearly this situation might influence the committee in exercising its role in evaluating and nominating directors to side with management.

The interviewees had strong opinions about the evaluation of board members, indicating discomfort, because the mere suggestion of evaluation is regarded as an insult in the KSA context, implying incompetence, and is thus very difficult to implement. As clearly noted, directors in Saudi Arabia often include large shareholders, founders of the company and other individuals who have high social status, such as members of the royal family, ministers and other senior government officials, thus the process of evaluation is potentially fraught. Numerous quotes relevant to this point were made. For example, Interviewee INED 6 stated in this regard that:

> "Directors think that evaluation is an insult because it is saying they are incompetent; I see no problem with the evaluation itself but how they should be evaluated is very sensitive."

Interviewee ACM1 pointed to the practical difficulties as follows:

> "How would someone evaluate board members, especially when they think they are superior to others; no one would like anyone to monitor or evaluate him. A board member's reply would be: "Who does he think he is to evaluate me?"

Interviewee FA argued that:

> “When you have a prince or a highly regarded member of society, it is regarded as an insult if you try to evaluate them or even mention board evaluation.”

While Interviewee INED 5 pointed to calls involving large shareholders:

> “Whatever the structure of this committee, it would be difficult for it to play its role effectively, especially when the board has large shareholders. We are selected by those people, so how should we evaluate them? It’s a matter of conflict of interest.”

Interviewee BS 7 made a point regarding the lack of accountability this type of set up can cause:

> “The committee is composed of the owners and they make the decisions of whom to bring on the board and who to fire; that’s as far as board evaluation goes, they are the owners and therefore they do not need evaluation, you can’t tell someone who built the company for thirty years that you need evaluation, it is his decision.”

While Interviewee CEO 2 gave a specific example thus:

> “Our first board meeting was in Caen, every board member came in his private jet; one of them landed in another city because his jet was too big for Caen’s airport. You have people who represent royalty and the elite of the society on the board, so who would evaluate them?”

More generally, many of the interviewees argued that evaluation of directors in the Saudi context is simply not useful and, in some cases, impossible. When conducting the first interviews stage in January 2010 it became evident from all the interviewees that no meaningful evaluations are carried out in the KSA. Furthermore, committee members who are nominally ‘independent’ are in fact not truly independent. Thus cultural and social values seem to prevent the role of the committee in evaluating board members in practice, especially those of high social status. Indeed, board members seem to feel socially obligated not to undertake such evaluations thus reflecting an embedded dominant organisational logic.

As the CMA had mandated the formation of ‘remuneration and nomination’ committees by listed companies in January 2011, many of the second stage interviews conducted in October 2011 revealed that this committee had now been set up since the first stage discussions took place.

It was evident that coercive pressure from the regulatory body was the main driver of this behaviour. During the second round of interviews however, the interviewees noted continuing concerns regarding the ability of their board members to remain independent and evaluate directors representing large shareholders particularly those with ‘high’ social status. As interviewee NED 5, a member of a remuneration and nomination committee, noted:

> “You come and take members from the board and tell them to evaluate the board; who evaluates whom?; where is the independence? Even after they evaluate the board, what is the assurance of a member of this committee performing this role effectively?; what if he [the committee member] noticed something wrong with one of the board members and came out and said this is wrong?; what is his assurance regarding remaining on the board?”

The interviewees emphasised specific elements missing from the evaluation process in Saudi culture and reflecting ownership structure, indicating that the entrenchment of family companies and block owners remains significant. CMA officials acknowledged the impact of culture on the evaluation process at board level, but that they were trying to overcome the problem as interviewee CM noted here that:

> “It is a matter of culture; if you would say to a board member that he needs to be evaluated he would regard this as an insult, but after

> making presentations and workshops on this topic, he would come and discuss it with you more openly."

It is clear from the discussion that when regulators mandated Saudi companies to form remuneration and nomination committees, boards complied only in a symbolic way and did not change actual practice. Some interviewees however revealed that they are in the process of introducing a questionnaire to be filled out by board members themselves as a method of evaluation. Nonetheless, it is unlikely that any such methods of evaluation will prove to have much impact because of the cultural impediment to the broad notion of 'evaluation' that remains. Thus the new institutional logic of the regulator has been avoided /defied.

6.5 Factors Influencing the role of NEDs and INEDs

The importance of NEDs and INEDs has been emphasised regularly in the context of 'good' corporate governance (e.g. Cadbury, 1992; Stills and Taylor, 2001; Higgs, 2003), and so the role of INEDs was explored specifically here.

Few of the interviewees (only five) distinguished between the role of NEDs and INEDs, instead regarding the difference as simply a classification needed in the annual report, with no impact on their board roles. Interviewee INED 4 noted:

> "I don't understand what the difference between an NED and an independent NED is; they are all the same and have the same role to play on the board and it is only classifying the member in the board's annual report that has changed."

The interviewees argued that the term "independent director" was relatively new in the KSA context, only emerging after the introduction of the national corporate governance code in 2006. It was also argued, however, that the definition of an independent NED therein was not clear, making it difficult in practice to classify directors as independent.

It was pointed out that government officials on boards were formally regarded as independent directors in some cases, even though they represented government ownership. Interviewee INED 6 stated in this context that:

> "The term independent is new to us. I have been classified as an independent director on my board but there is no difference in the role I play on the board; we drink, tea make sure that everything is going ok and leave."

Similarly, interviewee INED 5 stated that:

> "The "independent director" is a new term in the Saudi corporate environment – what is independent? It is not to have shares. I don't have any, therefore I am independent, but my role on the board is just to give advice as a consultant to the chairmen, who are the controlling shareholders."

The interviewees claimed that board members are largely unaware of the legal obligations faced by independent directors because the CMA regulations only define independence as "having no relationship with the company or being a relative of the executive employees"[57] and do not take into account the boundaries at which the ability to give independent judgments end. Worryingly, Interviewee BS 3 noted here that:

> "I have contacted the regulatory body CMA to clarify what they meant by "independent" in order to class our board members, as the definition was not clear for us. I did not get any reply."

Roberts and Scapens (1985) argue that the way practice is defined will depend on how past events have also defined. In the Saudi context, independent NED have not existed on the boards of Saudi companies until only recently and, as noted earlier, the term has only been used to any meaningful extent since the Saudi corporate governance code was issued in 2006. Greenwood and Hinings (1996) argue that institutional change cannot occur until organisations have an understanding of new concepts; thus, an

[57] Article 2 corporate governance code Appendix A.

important influence on INEDs’ appointments is an understanding of the role at board level, as the role of the INED is limited to the definition of the CMA and is still not understood. Diffusion of practice is slow in spreading and the critical need for giving independent judgment is currently missing. Thus coercive pressure may be needed to institutionalise this new logic.

Thus, companies seem to have appointed nominally independent directors simply as a symbolic response to the corporate governance code and the legal environment has yet to maternally influence board composition (Luoma and Goodstein, 1999).

The interviewees argued that the level of board members’ understanding of their role varies and suggested that INEDs who hold CEO positions in other companies will have a better understanding of their roles as INEDs. Interviewee BS 11 explained that:

> “An executive director is more aware of his responsibilities in his position as an executive, therefore when he becomes a non-executive elsewhere he is more aware of the boundaries of his role and that he is not an executive in that company.”

Although in this case the example relates to NEDs generally, it has obvious implications for the specific independence function.

6.5.1 Government and Family Representation

As noted earlier, in KSA companies with significant government ownership, a representative from within government organisations is elected to the board, either from the Ministry of Finance or a similar agency. Many interviewees showed concern about government NEDs on the board, suggesting that most of them are inadequate, without the relevant knowledge or experience to provide meaningful independent input to boards. The interviewees in fact suggested that government representatives' interests are generally limited only to making sure that the outline of procedures is in place as Interviewee BS 6 stated that:

> "The role of government officials on boards is very inactive; they act as if they have a checklist to make sure everything is in order but if there are any discussions about the business plan or strategic issues, they are mostly quiet about it. They lack the business experience that is crucial to the board."

Interviewee NED 9 was particularly scathing when noting that:

> "The government officials who are on our board contribute little; I have never heard them talk or discuss anything of value; they are only on the board to represent silence and not to represent their investors."

An executive and board secretary (interviewee BS 9) shared this concern:

> "People on the board are silent as the wind; these are mostly government officials who are on the board with us; I really don't know why they are on the board."[58]

While even one of the government officials interviewed (NED 5) acknowledged that:

> "Board members, including myself, came on the board to represent government investment and lack banking experience. I think within time we will learn and have more experience."

At a more general level, it was suggested by the participants that when board members do not have a clear understanding of their role and/or lack the necessary experience and background they are simply not in a position to exercise their role effectively. This issue may also lead in turn to the emergence of practices that are not relevant to their role as

[58] Some of the interviewees argued that the main reason why government officials are on the board is simply financial compensation for being on the board.

board members, such as micro-managing. Interviewee CEO 1, who is an executive director and a NED on another board, explained here that:

> "Boards should not micro-manage and should focus mainly on relevant roles. Some board members do not have a clear understanding of their role. This leads them to get involved in micro-managing, but how management carries out its role is not the board's business."

In family companies, INEDs are not actually family members, but their role is limited to being consultant to the controlling group and hence not INEDs. The interviewees explained in this regard that family members who are NEDs are more involved with the company and, are therefore more aware of the business decisions that are needed to be made at board level. Interviewee CEO 4 argued here that:

> "NEDs who are members of the family are more aware of the industry and business and are closer to management; their discussions at board level lead to more effective decisions. Other NEDs are not so involved with board decisions."

Several interviewees from family-controlled companies stated that the board meeting was just the final step in the decision making process. Discussions took place prior to board meetings with the family members, and the proposed decision would then reach the board in its completed form; interviewee CEO 5 explained that:

> "Before the board meetings I would sometimes go and meet non-family board members in person in order to explain to them the direction of the proposal and for them to have a clear understanding of our [the family] direction before the board meeting."

Interviewee CEO 2 also noted that:

> "Whether it's a corporate governance code or a company law, family-controlled companies will always do what they see as right for themselves; appointing an audit committee or

> independent directors would not change anything, as they control what goes on."

Clearly, family members have a major influence on the decision- making of their firms' boards, whether or not independent NEDs are present. The influence of family and large shareholders is vast on KSA boards, which results in INEDs' opinions being largely irrelevant, as interviewee CEO 1, an INED on another board, noted:

> "I tried to get involved in board issues…however, these were never followed up and were even carried out just because the chairman, who is the controlling shareholder, wanted another approach and so I left the board."

The same interviewee went on to explain that:

> "He [the chairman] would ignore our views and suggestions, going on to do whatever he wanted, just because he had control over the board and was not interested in what anyone else had to say. I was the only one who was at least trying, but others were agreeing with him, just to stay on the board or for other benefits that they were gaining from their directorships."

Interviewee INED 6, who is on a board controlled by a large shareholder, summed up the problem:

> "We go to the board and find everything already put in place by the chairman, who is the controlling shareholder; would discuss the agenda items with us and we would give him our opinion; when a decision is made, it is his choice to take our advice or not because it is his company."

Large shareholders are thus barriers to INEDs' involvement, as even when INEDs try to exercise their independence in good faith they are in a weak position relative to large shareholders who dominate boards. The interviewees also argued that the relationships between individual board members through their networks tend to result in agreement between them in all board issues all the time. As Interviewee NED 10 noted:

> "Our businesses is still influenced by our culture; when you have a relationship with someone on the board, you compromise the business in order to maintain this relationship, what is called in our culture "courtesy", "*Mojamalah*." Because of this courtesy, you do not want to lose this relationship with this person, so you compromise by losing the business."

However another interviewee, BS 1, argued that:

> "We are a society filled with hypocrisy with our "courtesy"; our understanding of business is that, 'I will do what I can but will not take it to the level of jeopardising the relationship I have with someone else,"

Interviewee, CEO 2 gave a specific example regarding this issue, stating that:

> "One of the board members, who is a large shareholder, paid six million for another non-profit organisation in order to show his generosity. Six million is nothing to him, as he will write it off the next day. It's not about generosity, it is about maintaining a relationship with the prince of that province where the non-profit company is located."

Cultural influences, such as "courtesy to others" and personal relationships have clearly impacted on the level of KSA board members' practical engagement. These social influences from their network of relationships are firmly embedded in the business environment and are difficult to overcome. The discussion now turns to the factors influencing other governance mechanisms.

6.6 Other Factors Influencing Other Governance Practices

Most interviewees agreed that culture has a significant impact on corporate governance practice; evaluation of board members and whistle-blowing are amongst those that are alien to the Saudi context. Cultural values such as courtesy to others, one's position in society, and the employment of friends and family all impact on the make-up and practice of the nations' boards. Many of the interviewees argued that introducing a 'Western' code did not necessarily mean that it would have to be adopted in the same manner as in the countries of origin, where the cultural, political and economic environments were different. Interviewee INED 5 stated in this context that:

> "The code, in itself, is not the main pillar of governance; it is the society and how it would accept implementing such practices. In order for these codes to be effective, society needs to change and adapt before implementing governance practices. Society still has not yet accepted the concepts of corporate governance."

Some practices mentioned were whistle-blowing, CEO duality and cumulative voting. The concept of 'whistle-blowing' was regarded as particularly helpful but difficult, maybe impossible, to adopt in the Saudi environment. Interviewee ACM 1 pointed to the practical danger this might have for those involved:

> "We suffer in Saudi Arabia, where if someone speaks out against another, that means he has condemned himself in the company and is no longer trust worthy, and will always be looked down upon… what are the rights and assurances for the whistle blower?"

The interviewees consistently pointed out that in Saudi culture, whistle-blowing is perceived differently from the way it is perceived in Western countries. It was argued that in the KSA, employees will tend to avoid whistle-blowing against their superiors or other employees, simply because it is regarded as immoral and not an act of nobility. In addition, no assurances or rights are given to potential whistle-blowers, as even the term 'employee rights' is alien in Saudi culture (Piesse et al., 2012). Perhaps not surprisingly given this context, the way in which cultural and social norms are embedded in Saudi society, based on collectivism, family relations and tribalism influences views over the reporting of wrong doing. This finding is in line with previous studies in countries with dictatorial monarchies that have very little whistle-blowing as it is likely in practice to damage the career of those who do so (Aguilera, 2005).

The role of shareholder activism was also limited, as more education was needed about shareholders rights to take a more active role. Interviewee INED 1 argued that:

> "What has made boards and corporate governance better in other countries is that shareholders take action and take companies to court; the governance practices will not be improved by only issuing regulations but when shareholders themselves take these companies to court and sanctions are issued on board members; then you will see that only the fittest will nominate themselves to the board and not only to fill their pockets."

Interviewee INED 5 also noted that:

> "Regulators introduced the corporate governance codes as formal laws and procedures that need to be followed. This is mainly because the regulator presented the code as regulations and laws and did not present the codes as a way to promote justice and equality for all shareholders, which is in the Islamic teachings."

Interviewee NED 8 also pointed to the economic development of Saudi Arabia over the last 50 years as an important element; the interviewee explained:

> "Until the late 1950s, we were still using camels as a means of travel. … the point is that we have shifted dramatically in the last 50 years, from having only deserts and camels as means of transport to building skyscrapers, which is amazing; we still need time and education in order to gain a better understanding of governance practices and how to apply them in our society."

Another cultural effect on corporate governance suggested by the interviewees was the Arabic notion of "*Mojamalah* or "excessive courtesy". In practice this involves disregarding certain protocols or rules, at another's request in order to please him or her.

In the context of this study, it could involve board members being nominated as chairman or CEO simply because of their social status. As interviewee BS 1 stated:

> "Our problem is that we, as a culture, are permissive, which does not only affect companies but the country as a whole; it's all about, "I don't want to lose you, so I will do what you want me to."

Thus, the introduction of some western-style corporate governance practices collide directly with the cultural and social norms and institutions that are embedded in the Saudi context, although this is not the key factor in the next issue examined, that of CEO duality.

6.6.1 CEO Duality

Most Corporate governance codes suggest that the roles of chairman and CEO should be separated, arguing that many benefits will arise from separating the two (Rechner and Dalton, 1991; Cadbury, 1992; Dahya et al., 1996; Stile and Taylor, 2001; Solomon, 2007). Some previous literature has, however, pointed to the benefits of CEO duality, such as providing the firm with a clear focus on its objectives and operations (Anderson and Anthony, 1986) while also increasing the firms' ability to secure resources (Pfeffer and Salancik, 1978) while other find no benefits of the separation (Elsayed, 2007; Dahya et al., 2009). The current practices of boards of directors in Saudi-listed companies with regard to splitting or combining the role of CEO and chairman were discussed with the interviewees, while taking into account that this practice of CEO separation is recommended by the code but is regarded as one of the voluntary sections of the extant code.

The interviewees noted that before the KSA's corporate governance code was introduced, most companies, including family-controlled entities had CEO duality. However, some had separated the two roles often those that were government-controlled[59], reflecting a different community of practice. After the introduction of the corporate governance code, all interviewees, without exception, indicated that their firms had separated the role of chairman and CEO on their boards. Interviewee INED 3 explained why most companies had combined the two roles before the corporate governance code's recommendations to split them:

> "The first initiative to establish companies in Saudi Arabia did not come from people with knowledge and experience in the business but from people who had capital and, therefore, establishing companies started with owners of capital overseeing executives that they employed; the latter merely running the day-to-day operations of the company."

In general, the interviewees made clear that the separation between the roles of CEO and chairmen had been in response to the introduction of the corporate governance code as a coercive isomorphism.

6.6.2 Cumulative Voting[60]

The KSA's corporate governance code recommends, but does not mandate, that companies adopt cumulative voting when selecting board members at the AGM (CMA, 2006). The KSA code defines cumulative voting as:

> 'a method of voting for electing directors, which gives each shareholder a voting rights equivalent to the number of shares he/she holds. He/she has the right to use them all for one nominee

[59] Although the interviewees suggested that, although not entirely clear, dual CEOs were not technically permitted even prior to the code's emergence.
[60] As of 2012, 23% of KSA listed companies adopted this practice

> or to divide them between his/her selected nominees without any duplication of these votes'.

The interviewees differed in their opinions regarding the benefits of adopting cumulative voting; those representing the government seemed to be broadly in favour and their boards typically had introduced cumulative voting or were in the process of approving such a system. Interviewee CH 1 argued that cumulative voting gives minority shareholders a chance to nominate independent directors to boards, whereas current voting practices give large shareholders control of board nomination; as noted earlier, for cultural reasons often they bring their network of friends and family members onto the board and the absence of cumulative voting helps facilitate this. Interviewee BS 1 also noted that:

> "In our company, more than 50 per cent of the shareholding is controlled by the government and we try to adopt all aspects of governance, even cumulative voting, although this reduces the board seats that we control. We tried to give minority shareholders a chance to be on the board, even before the introduction of cumulative voting. "[61]

Large and family shareholders interviewed argued against adopting cumulative voting, arguing that not only is it a voluntary part of the code but it might also reduce their voting power. As Interviewee CEO 2 explained:

> "I am against cumulative voting. If I chose this method, I would lose control of board seats. However, even that is not the problem; the problem lies when new members want to take the company in another direction- that is what I have a problem with."

[61] Although the promotion by government agencies of cumulative voting may also be motivated by a wish to have the former secure a seats on boards as outlined earlier in this chapter, in some cases government agencies cannot nominate a state officials to be NEDs because of other large shareholders controlling voting outcomes at AGMs.

These findings are consistent with the results of research elsewhere that has found a low level of implementation of government mechanisms in family-controlled firms and firms with concentrated ownership (e.g. Shleifer and Vishny, 1997; Chhaochharia and Laeven, 2009; Chizema and Kim, 2010).

Some companies that initially hesitated to adopt cumulative voting changed their views when they saw others move in this direction as a mimetic perspective. Interviewee NED 10, a controlling shareholder, rationalised this behaviour thus:

> "You are always careful when you adopt something new; it can be risky, especially for a new company like us. When we saw some of the other companies in our sector adopt cumulative voting, we also started to adopt it, while it was at the voluntary stage."

Effectively, such companies appear to try and model themselves on other existing organisations, as a reaction to environmental uncertainties in line with the notion of mimetic isomorphism (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). However, the firms represented several communities of practice and were influenced differently as regards adopting cumulative voting since the NED quoted earlier is a large shareholder of a firm that has recently been listed on the stock exchange for the first time, indicating that not all institutions feel isomorphic pressures equally in the same way (Oliver, 1991). This variation may also reflect the stage in the firm's life cycle (Powell, 1991; Tolbert and Zucker, 1996).

An interviewee from the financial sector, CEO 3, noted that a foreign company that owns a controlling stake of the company issued an internal corporate governance code for his firm to adopt and this stated that they needed to adopt cumulative voting. Interviewee BS 2, from the financial sector, whose company is controlled by foreign ownership, also indicated adopting cumulative voting for similar reasons. Thus, it seems that foreign owners influence the listed Saudi companies that they control to adopt corporate governance practices that would be common in the home country. This finding, which is consistent with previous evidence of foreign ownership improving corporate governance practices in developing countries (Claessens and Djankov, 1999; Claessens et al., 1999), suggests another way in which normative isomorphism impacts on KSA firms.

The interviewees believed that cultural issues discourage companies from adopting cumulative voting, it was suggested that many small shareholders are simply not interested in voting, even when online voting is introduced, as the shareholders are only interested in short-term investment. Interviewee BS 9 explained here that:

> "The reality of the stock market is that there are large controlling shareholders and small short-term investors. These small investors are interested in the company's short-term share price. We know this as a fact, so even if you have cumulative voting and also implement online voting, in the end, it is a waste of time and money because these shareholders do not care to vote; the culture of voting in society is misunderstood."

Interviewee NED 9 was more blunt:

> "Why implement a method that you know is useless; people don't vote and don't care what is happening on the board, all they care about is short-term profits on the stock market"

Interviewee BS 7 argued that:

> "There is no point in introducing cumulative voting because when looking at actual practice the people in control will have to divide their shares among the individuals they want, and agree on this division before the AGM so they will still be in control. Nothing has changed; the culture of voting needs to be changed before implementing this method."

The discussions indicated that institutional investor agencies in Saudi Arabia try to promote the adoption of cumulative voting on behalf of the government, while regulatory bodies[62] and foreign investors also seem to have had an influence of this type. Only family and large shareholders seem not to be supportive of adopting cumulative voting systems representing two communities of practice and competing institutional logics.

From an institutional perspective, it seems that some KSA companies have adopted cumulative voting as a symbolic scene to conform with the regulatory environment. For example, companies with government representation and/or significant foreign ownership seem to be influenced by the governance practices of these stakeholders, although companies controlled by family and other large shareholders seem to resist this pressure in an attempt to protect their power and control over the company consistent with previous literature (Klapper et al., 2005). Thus, ownership structure is of importance in the adoption of these governance practices. It is equally clear that coercive and mimetic isomorphism have influenced companies to adopted cumulative voting but a number of social barriers, such as the presence of family ownership and the culture of voting at AGMs work in the opposite direction. Interestingly, the evidence on cumulative voting systems shows that while some aspects of the Saudi governance code have been adopted, some, such as cumulative voting, are not found in all firms; this supports Friedland and Alford (1991) assertion that the level of adoption of institutional practices depends on different institutional logics that are embedded within organisations which determine how they respond to institutional pressures. The

[62] In 2012, the Ministry of Commerce issued a statement encouraging all listed companies to work on adopting cumulative voting. (Source http://www.mci.gov.sa/news/displaynews.asp?id=1739)

discussion of the research now concludes by examining the issue of director motivation and incentivising board membership.

6.6.3 Board Membership Incentives

The interviewees were asked for their opinions regarding the motives underpinning board directorships in Saudi Arabia. Many interviewees suggested social status as the most important reason for individuals seeking out and accepting board positions. The findings are therefore consistent with studies that find that board directorship acceptance is associated with high social status (e.g. Aguilera, 2005) indicating that the evidence is not exclusive to the KSA setting. However, several of the interviewees (17%) argued that they were on the boards of directors primarily to educate and gain experience. This view was mainly expressed by CEOs and academics. The results are consistent with the literature, in that board membership gives symbolic power to its members (McGregor, 2000) and satisfies a desire to learn from the experience of others (Mattis, 1993; Burke, 2000). The view of Interviewee CH 1, who is a government official, noted that in his case, although there was a specific purpose, he had little choice in taking up a directorship:

> "I joined boards of listed companies because I have to; part of my job is to look after our government investments; however, many others that I have seen only use it as means of gaining fame and to be noticed and to say, "look at me, I am a board member", especially in the banking sector."

However, in some circumstances cultural factors from social networks may influence individuals "not to say no" to a board membership interviewee CEO 2 explained that:

> "A Large shareholder Mr.X whom I know wanted to acquire another listed company and asked me to join him on the board.

> "I nominated myself but then Mr.X pulled out of the acquisition, I then forfeited my directorship, the current controlling shareholders asked me to not forfeit my nomination and stay as a INED. I agreed because I couldn't say no to them because whom they were [people with high status], although I didn't have any interest in staying as a board member"

The interviewees argued that many individuals want to be on boards for reasons that are mainly economic. The specific incentives mentioned fell into two categories: the amount of compensation; and information that board members may gain to use for illegal insider trading. Interviewee CEO 2 provided some context here thus:

> "I hold a few other board memberships other than my position here as a CEO therefore some of the people I know have contacted me to recommend them to some of the companies' boards; they admit to me that their motives is the remuneration as they are experiencing hardship."

When the issue was explored in more detail, the interviewees indicated that as well as direct personal benefits, the awarding of commercial contracts was also important. Interviewee BS 7 noted that, very much contrary to any notion of 'best practice' that:

> "Most of the board members are there to gain business contracts for their business and try to get the most benefit; they should be there to monitor management but in fact in one of the companies, not our board, the chairman made his board agree to buy land with more than its market value because he [the chairman] owned that land… Board membership is a matter of honesty to God before anything else, even if all the governance mechanisms in the world were in place and you had bad intentions, you would find a way to do what you wanted."

Insider trading was regarded by many of the interviewees as being acceptable to society. This is contrary to attitudes in Western countries, where sanctions are applied to insider trading and it is regarded as a crime (OECD, 2004). Interviewee NED 9 explained that:

> "Saudi society does not regard trading with insider information as illegal; even those who are regarded as religious think it's natural that, if you gain information, you have the right to take advantage of it."

Similarly, Interviewee FA 1 noted that:

> "It is all about information and insider dealing; why do you think there are board members on many different boards? They trade in stock and want to make fortunes from the information they get access to."

Interviewee INED 1 provided some important context here:

> "When people are at a dinner party, some board members talk about the information that they have got with pride, and gain pleasure because others around them are looking up to them as if they are helping them by giving them this information; they are doing this because they think they are helping those who are close to them. Society looks at insider trading as if it is acceptable, not only that but also as a sign of "nobility" because that person is helping his people. The way we value it is different from in the West; they see it as wrong and punish it."

Although some of the interviewees argued that the incidence of insider dealing has reduced as laws have been put in place and sanctions issued on board members[63]. Thus, coercive pressures from the regulator are taking place in order to reduce the prevailing logic of insider dealing in KSA. Notwithstanding the issue specific to insider trading, cultural, social and economic motives are the most important factors that influence individuals to become board members in KSA.

[63] In 2011, nearly 25 individuals were accused and charged with insider trading, which resulted in them being banned from the boards of companies and from investing in the stock market.

6.7 Conclusion

The Saudi context is highly institutionalised with social and cultural norms and values influencing many aspects of national life. The results presented here indicate that prevailing institutional norms arising from the KSA’s historical and environmental context as set out in an earlier chapter, influence practice relating to boards of directors in a range of different ways.

The findings indicate that the main driver for recognition of corporate governance practices at the national level is a perceived need to restore investors’ confidence following the market crash in late 2005; as a result, the CMA issued the first Saudi corporate governance code in 2006, which most companies adopted to provide institutional legitimacy, but with some of the mandatory sections having only ceremonial impact decoupled from policy. Companies, however, vary in their adoption in practice of the voluntary sections of the code, influenced primarily by ownership structure, and personal relationships from social networks.

The introduction of the corporate governance code has established the need for independent NEDs on the board, although this practice to date has only been ceremonial. More generally, the findings show that board composition is driven by several factors that are not in line with established notions of best practice, resulting from ownership and the trust and personal relationships, resulting from network of actors important in a tribal society such as KSA.

The findings of the chapter suggest that normative isomorphism plays a role in the KSA as similar board committees have been established among companies within industrial sectors; board members with multiple directorships have influence over companies to adopt analogous board committees. Saudi companies have generally established audit remuneration and nomination committees as mandated by the code, but primarily as a ‘ceremonial practice’, conforming to the coercive institutional pressures that are influenced by regulatory bodies.

However, and possibly as a result, it does not appear that remuneration and nomination committees are actually effective, especially regarding the practice of evaluating board members, with cultural barriers inhibiting the ability to do so, with the cultural disapproval of ‘evaluation’ of high status people such as large shareholders, company founders, members of the royal family and the elite of society. Relatedly, the independent NEDs who should play an important role on these committees are either absent or unable to function effectively without assurances that they will not be dismissed from the board for any contentious decisions. Thus, in KSA one community of practice has arisen with the inability to implement evaluation processes. In this context, the CMA should urgently consider the practice of board committees, and find a way to improve matters that takes into account the nations’ societal and cultural context.

From an institutional theory perspective, a particularly noteworthy finding in the chapter is the interviewees’ perception that the practical level of involvement of INEDs is influenced by networks of large and family shareholders, reflecting cultural and social norms such as “courtesy to others”. The main manifestation of this tendency appears to be that board members value their relationships with other directors more than the business itself. The presence of large shareholders and controlling family members on boards means INEDs perceive major shareholders as in full control with the INEDs’ effectively acting only as external consultants embedding this institutional logic.

The findings as a whole suggest that board members in the KSA have a wide range of motives for joining boards, with some regarding board membership as an educational opportunity while, more worryingly, others believing it will be a way to improve their social status and networks or to access valuable information. It is not surprising therefore that many of these governance mechanisms nominally in place in the kingdom have very little effect with a decoupling of policy. In addition to the issues referred to above, the ability of INEDs to become and remain independent, exercise whistle-blowing and support cumulative voting, are all heavily compromised in practice. The weak coercive monitoring of the regulatory bodies is also a contributing factor.

The findings presented in this chapter contribute to the governance literature by investigating specific board-related issues in a developing nation from an institutional perspective. As a whole, the evidence indicates that cultural and social norms influence corporate governance practice and that analyses of corporate governance issues should take into explicit account the organisational and environmental institutions within their context. This contextual issue is therefore taken account of in the next chapter which discusses the results obtained from the questionnaire survey.

Table 6.1 Summary of the interviews findings

<table>
<tr><th>Corporate Governance practice</th><th>Type of provision</th><th>Family companies</th><th>Government companies</th></tr>
<tr><td>Board composition</td><td></td><td colspan="2">KSA companies had the norm of having the owners or their representatives on the board as NED minimising the presence of executive board members, the code emphasised current practice</td></tr>
<tr><td rowspan="2">Selection of the Chairman</td><td rowspan="2">NA</td><td colspan="2">Cultural and social factors influence the selection process</td></tr>
<tr><td>Large and family shareholders influence the selection</td><td>Government officials and government bodies influence the selection</td></tr>
<tr><td rowspan="2">Selection of Non-Executive Directors</td><td>Mandatory</td><td colspan="2">regulations influence board to be composed of NED and Cultural and social factors and ownership structure play an important role in the selection process</td></tr>
<tr><td>effectiveness</td><td>Family NEDs are more aware of the business and therefore are more effective</td><td>NEDs who are government employees are inadequate as they do not have the relevant experience and qualifications</td></tr>
<tr><td rowspan="3">Selection of Independent Non-Executive Directors</td><td>Mandatory</td><td colspan="2">The corporate governance code influences boards to have independent directors</td></tr>
<tr><td rowspan="2">effectiveness</td><td colspan="2">This mechanism has been decoupled as the institutional logic within the Saudi culture unaided INEDs to act independently with controlling shareholders predominant their effectiveness</td></tr>
<tr><td>Large and family shareholders influence selection of these so-called independent directors</td><td>Government officials influence the selection of these directors</td></tr>
<tr><td rowspan="2">Selection of Audit committee members</td><td rowspan="2">Mandatory</td><td colspan="2">corporate governance code coercively influenced companies to adopt this committee however ownership remains a powerful tool in the composition of this committee</td></tr>
<tr><td>controlling family shareholders appoint them</td><td>the government appoint them</td></tr>
<tr><td rowspan="3">Selection of Remuneration and Nomination committee members</td><td>Mandatory</td><td colspan="2">corporate governance code coercively influenced companies to adopt this committee</td></tr>
<tr><td></td><td>controlling family shareholders appoint them</td><td>the government appoint them</td></tr>
<tr><td>effectiveness</td><td colspan="2">Cultural and social factors hinder the roles of these committees</td></tr>
<tr><td>CEO / Chairman separation</td><td>Voluntary</td><td colspan="2">the corporate governance code normatively influenced companies to separate CEO and Chairmen roles although it still remains a voluntary part of the code</td></tr>
<tr><td rowspan="2">Cumulative voting</td><td>Voluntary</td><td colspan="2">The corporate governance code with government initiatives have normatively influences companies to adoption cumulative voting</td></tr>
<tr><td></td><td>some family companies do not adopt this practice as it contradict with family logics</td><td>Government firms adopt this practice normatively</td></tr>
<tr><td>Number of Directorships</td><td>Voluntary</td><td colspan="2">corporate governance code normatively influenced directors to have a maximum of five directorships</td></tr>
<tr><td>Directorships incentive</td><td></td><td colspan="2">Individuals sought that social statues, financial incentives and experience were main derivers in obtaining a board membership</td></tr>
</table>

Note: The table shows the main findings of the interviews regarding factors influencing governance practices; it also shows more specifically, in some instances, the different influences within family and government controlled companies.

Chapter Seven: Questionnaire Analyses

7.1 Introduction

The previous chapter focused on the findings from the semi-structured interviews that were conducted in KSA. The present chapter presents and discusses the results from the questionnaire survey, which was conducted to allow a larger number of opinions to be gathered and the extent to which the opinions of the interviewees pervade in the KSA determined (Gillham, 2000). The questionnaire[64] was distributed amongst boards of directors of KSA listed companies and was designed to elicit the respondents' opinions on the factors that may influence corporate governance practices, particularly those related to board issues. This chapter is organised as follows. Section 7.2 outlines the questionnaire headings and identifies the respondent groups, before the analyses of respondents' perceptions regarding the factors influencing the nomination of board and committee members are discussed in Section 7.3. Section 7.4 investigates the respondents' perceptions on the factors influencing other corporate governance practices while Section 7.5 addresses the influences on board of directors' roles and decision making process. Section 7.6 concludes this chapter.

7.2 Respondents' Background

As discussed in Chapter four of this thesis, the questionnaire covered four main areas, the first section of the questionnaire covered background information on the respondents and their role on the board. The second then focused on the factors influencing the selection of board member and committee members. The third part was designed to elicit the respondents' opinion on factors influencing the adoption of some

[64] Copies of the questionnaire in both English and Arabic are provided in Appendix D.

broader corporate governance practices, while the final section aimed to obtain views regarding influences of directors' behaviours and board meeting practices.

7.2.1 Respondent Demographics

For the analysis of the questionnaires, the respondents were requested to identify themselves as either: Chairmen (CH), Chief Executives Officers (CEOs), Non-executive directors (NEDs), Independent Non-executive directors (INEDs) or board secretaries (BS).

The participants were then asked to indicate from which sector their organisations were from. Most respondents were from the financial sector and multi investment sector representing 23.2% and 17.2% of the respondents respectively. Fifteen percent of the respondents were from the petrochemical and cement sector and 14% were from the building construction and real estate sector. 10% were from the tourism, communication and media sector with 8% coming from agriculture and food. The remaining nine percent were spread over a number of other areas. The respondents were also asked to disclose the ownership category that applied to their companies. Table 7.1 illustrates the respondents' demographics.

Table 7.1 Background Information about the Respondents

	Categories	Number		%
Board Role	Chairmen	3		3.7%
	CEO	9		11.0%
	NED	19		23.2%
	INED	20		24.4%
	BS	31		37.8%
	Total	**82**		**100%**
Serving on board committees	Audit	23		NA
	Remuneration and nomination	26		NA
	Executive	13		NA
	Sharia[65]	0		NA
Ownership type	Dispersed	19		23.2%
	Government	24		29.3%
	Family	26		31.7%
	Foreign	9		11.0%
	other	4		4.9%
	Total	**82**		**100%**
Years' experience as a board member	Less than 5 years	6		7.3%
	From 6 to 10 years	8		9.8%
	From 11 to 15 years[66]	36		43.9%
	More than 15 years	32		39.0%
	Total	**82**		**100%**
Sectors			% from each sector	
	Financial	16	3%	23.2
	Cement and Petrochemical	15	5.7%	15
	Communication and tourism	9	15%	10
	Agriculture and food	8	5%	9
	Multi investments	14	7.6%	17.2
	Building and real estate	12	5%	14
	Other	8	NA	8
	Total	**82**		**100%**

Note: This table details the respondent demographics regarding board role, years of experience, ownership category and board committee membership. The table also indicates the percentage of respondents in relation to the total of each sector.

After receiving the questionnaire responses, the documents were coded and analysed using SPSS. It was clear from inspection that the data were not normally distributed, therefore non-parametric tests were used to analyse the questionnaire responses, in particular, Kruskal-Wallis and Mann-Whitney tests were use. Factor analysis was also used in order to establish the extent of any commonality amongst respondents in related

[65] No respondents served on the Sharia committee; this might be due to the questionnaire being focused on board members and the Sharia committee board members are arguably independent even from the board.

[66] Another interesting observation from the table is that most respondents were board members for more than 10 years which might indicate to the length of time an individual may serve as board members and their views might be entrenched.

areas indicating the most relevant factors from the pool of factors under consideration (Dunteman, 1989).

7.3 Selection of Board Members

In order to investigate the extent to which factors suggested by the literature and in the interviews influenced the selection of board and board committees, the second part of the questionnaire addressed issues with respect to: Chairmen; NEDs; INEDs and board committees.

7.3.1 Selection of the Chairmen

The respondents were first asked to indicate their level of agreement about whether or not specific factors influenced the selection of the chairmen. Table 7.2 shows that on the basis of a 1 to 5 point Likert scale were 1= strongly agree, and 5= strongly disagree.

Table 7.2 Factors Influencing the Selection of Chairmen

Factors	R	M	SD	Group Means					K-W	M-W										
										Chairmen &				CEO &			NED &		INED& BS	Sig Diff
				CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Corporate governance code	12	4.07	1.08	4.00	4.56	3.63	4.60	3.87	0.04*	0.11	0.88	0.06	0.77	0.10	0.83	0.10	0.02*	0.61	0.02*	2
Gov & regulatory bodies	5	2.55	1.32	3.67	3.33	1.63	3.05	2.45	0.00**	0.74	0.00**	0.45	0.16	0.00**	0.60	0.08	0.00**	0.09	0.10	3
Members of royal family	10	3.95	0.97	2.67	3.11	4.28	4.10	4.03	0.01**	0.43	0.01**	0.02*	0.02*	0.01**	0.02	0.01**	0.56	0.38	0.81	6
Islamic principles	12	4.07	0.91	3.33	4.00	3.89	4.10	4.26	0.27	0.01**	0.23	0.15	0.04*	0.63	0.64	0.09	0.88	0.44	0.45	2
Personal relationships	1	1.70	0.70	2.67	1.89	1.53	1.80	1.58	0.03*	0.08	0.01**	0.04*	0.01**	0.13	0.70	0.10	0.17	0.86	0.11	3
Courtesy to others	2	1.82	0.89	3.33	1.89	1.47	1.75	1.90	0.06	0.05	0.01**	0.02*	0.05*	0.09	0.55	0.54	0.16	0.15	0.97	4
Position in society	3	1.93	0.94	2.00	1.89	1.89	1.80	2.03	0.89	0.72	0.44	0.51	0.69	0.53	0.70	0.94	0.65	0.44	0.72	0
Family ownership	8	3.02	1.44	2.67	3.11	2.89	3.05	3.10	0.96	0.60	0.96	0.58	0.68	0.94	0.88	0.74	0.74	0.46	0.84	0
Government ownership	7	3.00	1.35	3.33	3.33	2.68	3.11	3.00	0.75	1.00	0.49	0.75	0.75	0.28	0.61	0.61	0.28	0.39	0.80	0
Top Management	13	4.12	0.77	4.00	4.22	4.05	4.11	4.16	0.96	0.39	0.88	0.46	0.63	0.61	1.00	0.99	0.59	0.62	0.95	0
Company size	11	4.05	0.90	2.67	4.22	4.21	4.30	3.87	0.09	0.03*	0.04*	0.03	0.07	0.65	0.60	0.29	0.98	0.17	0.09	4
Company sector	9	3.82	1.20	2.00	4.22	4.00	4.00	3.65	0.23	0.03*	0.06	0.06	0.08	0.83	0.51	0.38	0.57	0.27	0.53	4
Experience and Qualification of nominee	4	2.36	1.31	2.67	2.89	1.56	3.70	1.77	0.00**	0.84	0.06	0.17	0.11	0.01**	0.09	0.03*	0.00**	0.38	0.00**	5
Nominee being on other company boards	6	2.77	1.42	3.33	4.33	2.11	3.55	2.13	0.00**	0.03*	0.06	0.33	0.05	0.00**	0.24	0.00**	0.00**	0.92	0.00**	7
										5	8	5	7	4	1	3	4	0	3	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

The respondents regarded “Personal relationships” as the most important, with a mean of 1.70, followed by “courtesy to others” (1.82) and “position in society” (1.93). This finding suggests that Arabian social and cultural networks are important factors in selecting the chairmen of the board and is also consistent with both previous literature that argues that Arab tribal and social values still influence modern organizational structures (Faligi, 2009) and the interviews finding in the previous chapter. However, family and government ownership did not seem to influence the selection of the chairmen, with means of close to the mid-point of 3 which was not expected and does not accord with the findings of the interviews. The Kruskal-Wallis and Mann-Whitney tests indicate wither there are any significant differences between the respondent groups in general and between any two groups regarding their opinions regarding the influence of these factors. The results revealed that the groups had different opinions in several cases with significant results for the former. The NEDs and BSs indicated that government and regulatory bodies influenced chairmen’s selection, while all the other groups disagreed. This might be because most of the NEDs and BSs responses came from government-controlled boards (34% and 30% of each group respectively) and might be more likely to observe the influence of regulatory influence on chairmen’s selection in companies that are state-controlled an issue raised by the interviewees and discussed in Chapter Six. When analysing the results by type of ownership, respondents from family- and government- controlled boards agreed that government and regulatory bodies influenced the chairmen’s selection, while respondents from companies that had dispersed ownership disagreed. This finding suggests that where the government does not hold significant interests (i.e. in dispersely-owned companies) they do not influence the selection of its chairman in any direct way.

The respondents also had different opinions regarding the influence of ownership. Respondents from family-and government-owned companies agreed that family ownership is an important factor (means 1.62 and 2.56 respectively) while respondents from both dispersed-and foreign -owned companies were broadly neutral. Thus, the type of ownership is regarded as an important factor in the selection of chairmen in the KSA.

Inspection of the table above reveals that CEOs and INEDs had similar views with the least significant Mann-Whitney results[67]despite their different roles on Saudi boards as discussed in the previous chapter. The NED and BS also had similar views in regards to the factors that influenced the chairmen's selection. All the groups agreed that experience and qualifications are important factors that influence the selection of the chairmen, while INEDs disagreed with this factor, one possible interpretation is because some INEDs might see themselves, or others in the board room, to be more experienced than the selected chairman and therefore view the selection process of the chairman as based on social status and prestige arising from their networks.

The factor analysis reported in Table 7.3 suggested that six factors influence the selection of the chairmen. The first column in the table shows that the factor with the highest eigenvalues had high loadings for experience and qualifications and presence on other company boards; this factor is therefore labelled "Personal traits". The second factor is labelled as "cultural influences" as variables such as personal relationships, courtesy to others and position in society has high loadings; these findings concur with the evidence from the interviews which suggested that cultural norms influence the selection of board members. Although cultural influences and personal traits have very similar eigenvalues,

[67] The table shows that CEOs and INEDs had only one significant deference regarding the factor Members of the royal family

the cultural factors came second in the degree of importance in the factor analysis; this pattern is likely to reflect the two largest groups, NEDs and BS, who might have given more emphasis to the importance of personal traits as shown in Table 7.2.

The third column in the table is labelled “family ownership”, representing 11% of the total variance. When analysing responses by ownership type, respondents from family-controlled firms agreed that family ownership influenced the selection of the chairman with a mean of 1.62, while responses from all the other types of ownership had a mean close to three. Thus, within family firms, family owners appear to strongly influence the selection of the chairmen. These findings are consistent with evidence from the interviews where large shareholders, especially in family companies, were found to influence the selection of the chairman. The result is also consistent with DeMott (2008) who found strong influence of the controlling family on the selection process of the chairman.

The fourth column shows that Islamic principles and membership of the royal family have high loadings, this is relevant to the Saudi culture, discussed in Chapter six, where the Arab culture gives high regard to people with important social status such as those from the royal family and with senior government roles; therefore this column is labelled as “Political influence”. The previous literature has also shown the influence of social and cultural values in the Arab culture (Faligi, 2009).

Table 7.3 Factor Analysis - Selection of Chairmen

Factors	Personal traits	Cultural influences	Family Ownership	Political influences	Islamic values	Social status
Corporate governance code	0.590	-0.062	-0.189	0.311	-0.360	-0.329
Gov and Regulatory bodies	0.517	0.385	0.029	0.387	0.088	0.203
Members of the royal family	-0.367	0.359	0.036	**0.436**	0.392	-0.380
Islamic Principles	0.204	-0.027	0.242	**0.531**	**0.579**	-0.088
Personal relationships	0.405	**0.529**	-0.290	-0.154	0.044	0.184
Courtesy to others	0.349	**0.471**	-0.483	0.145	0.084	**0.413**
Position in society	-0.144	**0.593**	-0.021	-0.265	0.022	**-0.435**
Family ownership	-0.423	0.276	**0.679**	0.014	-0.166	0.235
Government ownership	-0.133	0.668	0.337	0.129	-0.372	0.200
Top Management	0.283	-0.388	0.096	-0.359	0.399	0.252
Company size	0.321	-0.428	0.047	0.428	**-0.460**	-0.095
Company sector	0.152	-0.268	0.449	0.266	0.047	0.292
Experience and Qualification of nominee	**0.638**	0.240	0.500	-0.284	0.024	-0.237
Nominee being on other company boards	**0.778**	0.029	0.316	-0.295	0.053	-0.157
Eigen values	**2.514**	**2.121**	**1.552**	**1.401**	**1.178**	**1.029**
Proportion of variance	**17.95**	**15.15**	**11.08**	**10.01**	**8.41**	**7.34**
Cumulative variance	**17.95**	**33.10**	**44.19**	**54.20**	**62.62**	**69.97**

Note: This table reports the results of Factor analysis. The top part of the table shows the weightings for the variables of each column the factors with high correlation in each column are highlighted in Bold. The bottom part of the table highlights the importance of each column in showing the eigenvalues, the percentage of variance and cumulative percentage. The Kaiser criterion was used to decide on the principal components which should be presented in the results. Kaiser (1960) recommends that principal components with latent roots greater than one should be retained[68].

The results from Tables 7.2 and 7.3 indicate that a community of practice exists when selecting the chairmen of a company, and this reflects the social and cultural influences that form the basis for this logic in the Saudi context. Both tables indicate how associates and friends nominate chairmen as a result of the position individuals hold within the society, while not undermining the influence of controlling shareholders in the nomination process. Thus, normative isomorphic tendencies are at work in making companies adopt similar institutionalising practices.

[68] Other methods in determining the number of principle components to retain have also been discussed in the literature such as the Scree test or on the basis of the total percentage of variance more than 70%

7.3.2 Selection of NEDs and Independent NEDs

Respondents were asked to express their views regarding the factors that influence the selection of NEDs and INEDs. Table 7.4 and 7.5 show that personal relationships (means of 1.77 and 1.70 respectively) courtesy to others, position in society and experience and qualifications of nominees were the most important factors. These results show that although individual levels of proficiency are considered when selecting board members, the influence of social and cultural factors are more important in the selection process for both NEDs and INEDs.

Table 7.4 Factors Influencing The Selection of NED

Factors	M	SD	R	Group M					K-W	M -W										
										Chairmen &				CEO &			NED &		INED	
				CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS	BS	
Corporate governance code	3.83	1.29	8	2.67	4.56	3.63	4.60	3.35	**0.00****	0.02*	0.21	0.01**	0.40	0.10	0.01**	0.02*	0.02*	0.50	0.00**	6
Gov and Regulatory bodies	2.30	1.22	5a	2.67	3.33	1.63	3.05	1.90	**0.00****	0.23	0.02*	0.67	0.09	0.00**	0.67	0.00**	0.00**	0.71	0.00**	5
Members of the royal family	4.08	0.87	11	3.33	3.11	4.28	4.10	4.30	**0.01****	0.77	0.08	0.14	0.03*	0.01**	0.14	0.00**	0.56	0.92	0.54	3
Islamic values	4.10	0.91	13	3.33	4.00	3.89	4.10	4.32	0.20	0.01**	0.23	0.15	0.04*	0.63	0.15	0.07	0.88	0.32	0.33	2
Personal relationships	1.77	0.74	1	2.67	2.11	1.53	1.85	1.68	**0.03***	0.17	0.01**	0.06	0.03*	0.02*	0.06	0.05	0.13	0.79	0.21	3
Courtesy to others	1.82	0.89	2	3.33	1.89	1.47	1.75	1.90	0.06	0.05	0.01**	0.02*	0.05	0.09	0.02*	0.54	0.16	0.15	0.97	4
Position in society	1.93	0.94	4	2.00	1.89	1.89	1.80	2.03	0.89	0.72	0.44	0.51	0.69	0.53	0.51	0.94	0.65	0.44	0.72	0
Family ownership	2.99	1.43	7	2.67	3.11	2.89	3.05	3.00	0.99	0.60	0.96	0.58	0.77	0.94	0.58	0.91	0.74	0.58	0.93	0
Government ownership	2.98	1.38	6	3.00	3.33	2.68	3.11	2.97	0.80	0.74	0.88	0.87	0.88	0.28	0.87	0.58	0.28	0.45	0.73	0
Top Management	4.09	0.78	12	3.67	4.22	4.05	4.11	4.10	0.80	0.11	0.41	0.15	0.37	0.61	0.15	0.77	0.59	0.83	0.79	0
Company size	4.07	0.86	10	3.33	4.22	4.21	4.30	3.87	0.16	0.03*	0.11	0.05	0.22	0.65	0.05	0.29	0.98	0.17	0.09	1
Company sector	3.84	1.15	9	2.67	4.22	4.00	4.00	3.65	0.31	0.03*	0.09	0.06	0.19	0.83	0.06	0.38	0.57	0.27	0.53	1
Experience and Qualification of	1.84	0.86	3	2.67	1.78	1.89	1.80	1.77	0.46	0.11	0.23	0.12	0.11	0.77	0.12	0.61	0.39	0.43	0.79	0
Nominee being on other boards	2.14	1.12	5b	3.33	1.56	2.26	2.10	2.13	0.08	0.01**	0.04*	0.07	0.05	0.04*	0.07	0.18	0.25	0.53	0.63	3
										5	4	2	3	4	2	3	2	0	2	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

Table 7.5 Factors Influencing the Selection of INED

Factors	M	SD	R	Group M					K-W	M- W										
										Chairmen &				CEO &			NED &		INED	
				CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS	BS	
Corporate governance code	2.73	1.44	7	1.67	1.78	3.05	3.25	2.58	0.06	0.71	0.12	0.09	0.38	0.03*	0.01**	0.25	0.69	0.22	0.10	2
Gov and Regulatory bodies	2.33	1.21	6	2.33	3.33	1.74	3.05	1.94	**0.00****	0.14	0.22	0.40	0.40	0.00**	0.60	0.00**	0.00**	0.98	0.00**	4
Members of the royal family	4.03	0.89	12	3.31	3.12	4.28	4.10	4.17	**0.02***	0.77	0.08	0.14	0.08	0.01**	0.02*	0.01**	0.56	0.57	0.92	3
Islamic values	4.02	0.93	11	3.30	4.00	3.89	4.10	4.13	0.51	0.01**	0.23	0.15	0.09	0.63	0.64	0.33	0.88	0.73	0.82	1
Personal relationships	**1.70**	0.70	1	2.67	1.89	1.53	1.80	1.58	**0.03***	0.08	0.01**	0.04	0.01**	0.13	0.70	0.10	0.17	0.86	0.11	2
Courtesy to others	**1.82**	0.89	3	3.33	1.89	1.47	1.75	1.90	0.06	0.05	0.01**	0.02*	0.05	0.09	0.55	0.54	0.16	0.15	0.97	2
Position in society	**1.93**	0.94	4	2.00	1.89	1.89	1.80	2.03	0.89	0.72	0.44	0.51	0.69	0.53	0.70	0.94	0.65	0.44	0.72	0
Family ownership	3.01	1.45	9	2.67	3.11	3.11	3.05	2.94	0.99	0.60	0.73	0.58	0.88	0.74	0.88	0.99	0.83	0.91	0.79	0
Government ownership	2.94	1.43	8	3.33	3.33	2.74	3.11	2.81	0.76	1.00	0.58	0.75	0.57	0.39	0.61	0.37	0.36	0.68	0.42	0
Top Management	4.05	0.86	13	3.33	4.22	4.05	4.11	4.03	0.74	0.11	0.28	0.15	0.26	0.61	1.00	0.77	0.59	0.87	0.78	0
Company size	4.07	0.86	14	3.33	4.22	4.21	4.30	3.87	0.16	0.03*	0.11	0.05	0.22	0.65	0.60	0.29	0.98	0.17	0.09	1
Company sector	3.87	1.12	10	3.33	4.22	4.00	4.00	3.65	0.47	0.03*	0.16	0.21	0.39	0.83	0.51	0.38	0.57	0.27	0.53	1
Experience and Qualification of Nominee	1.74	0.87	2	2.67	1.56	1.56	1.80	1.77	0.39	0.07	0.06	0.12	0.11	0.82	0.81	0.61	0.56	0.38	0.79	1
Nominee being on other	2.10	1.15	5	3.33	1.56	2.11	2.10	2.13	0.17	0.01**	0.06	0.07	0.05	0.26	0.47	0.18	0.77	0.92	0.63	3
										4	2	1	1	3	2	2	1	0	1	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

This evidence is similar to the results relating to chairmen selection in Table 7.2 above, and are also consistent with the interview findings and with previous literature of personal relationships as an influential factors in the selection process within Arab countries (Zagoub, 2011; Falgi, 2009). The results indicate neutral views concerning family and government ownership influence on the selection of NEDs (means of 2.99 and 2.98 respectively) and INEDs (means of 3.01 and 2.94 respectively) despite most Saudi listed companies being family and/or government owned. This result might be because the respondents have various types of controlling shareholders within their company such as foreign investors, large shareholders or dispersed ownership.

Tables 7.4 and 7.5 also illustrate that government and regulatory bodies influence the selection process of NEDs and INED (means of 2.30 and 2.33 respectively); in context the corporate governance code only influenced the selection of INEDs (mean of 2.73), reflecting the code being the first attempt to introduce the concept of INEDs to Saudi-listed companies and initiated the presence of INEDs on KSA boards. This evidence is consistent with previous literature that finds the importance of regulatory influences on corporate governance practices in several emerging countries (Black et al., 2006; Klapper et al., 2005).

Comparison of the results from individual respondent groups indicates some differences in their opinions. NEDs, INEDs and BS all strongly indicated that personal relationships and courtesy to others were the two main influences on the selection of NEDs and INEDs; in this context, CEOs thought that experience and qualification and having other directorships were most important.

The groups' responses also differed regarding the influence of the KSA corporate governance code on the selection of NEDs. Group CH agreed that the code influenced the selection process while all others disagreed. Interestingly, INEDs had mixed views regarding the influence of the code on their own selection as reflected in the mean response of 3.25. This evidence might be because not many KSA board members differentiate between NEDs and INEDs; as discussed in Chapter Six, as the concept of independence is not well understood within boards of directors of KSA listed companies given that it is a relatively new concept and this may even be the case amongst INEDs themselves.

To examine further the impact of type of ownership of respondent's companies, Table 7.6 highlights the particularly relevant finding and shows that respondents from family controlled boards strongly agreed that family ownership influences the selection of both NED and INEDs, while respondents from government-controlled boards agreed that government ownership influences the selection of both NEDs and INEDs on their boards. Respondents from dispersely-owned companies did not seem to think that government and regulatory bodies influenced the selection of NEDs or INED, similar to their response regarding chairman selection. Respondents from both family-and dispersed-owned companies did not think that the code or the regulatory bodies influenced the selection of NEDs while respondents from government-controlled companies agreed; this might be because government bodies are only able to influence the nomination of NEDs on to boards in companies in which they have an interest. Respondents with dispersed- and foreign - ownership agreed that the corporate governance code influenced the nomination of INEDs, while respondents from-family controlled companies disagreed, suggesting, as was apparent from Chapter Six, that INEDs in family companies are not actually independent and that they are selected in practice on the basis of social networks.

Table 7.6 Influence of Family and Government Ownership on the Selection of NED and INEDs,

	Selection of NED		Selection of INED	
	Family	Government	Family	Government
Family Respondents	1.62	2.96	1.73	2.72
Government Respondents	4.29	2.33	4.21	2.79

Note: The table shows the responses of from family-and government-controlled firms on the influence of such ownership on the selection of NEDs and INEDs.

The results shown in Tables 7.3, 7.5 and 7.6 together indicate that cultural factors are important in the selection of board members in the KSA, as reflected in the importance of the cultural factors within all tables.

Table 7.7 Factor Influencing the Selection of NEDs and INEDs

Factors	NEDs						INEDs					
	1	**2**	**3**	**4**	**5**	**6**	**1**	**2**	**3**	**4**	**5**	**6**
	Regulation	Social status	Personal traits Vs Government influence	Company sector	Islamic values	Family influence	Cultural and regulatory influences	Ownership	Personal traits V government influence	Social status	Company sector	Company characteristics
Corporate governance code	**0.778**	-0.149	-0.165	0.299	-0.247	-0.069	-0.145	**-0.481**	0.152	0.156	-0.566	0.140
Gov and Regulatory bodies	**0.644**	0.366	-0.195	-0.020	0.344	-0.051	**0.598**	-0.130	0.457	0.289	-0.143	-0.012
Members of the royal family	-0.157	**0.477**	-0.452	0.378	0.213	-0.358	0.271	0.344	-0.195	**0.665**	-0.171	0.183
Islamic principles	-0.006	0.186	0.092	**0.435**	**0.656**	-0.223	0.299	-0.102	0.076	**0.608**	0.288	0.446
Personal relationships	0.375	0.185	0.229	**-0.491**	0.219	0.317	**0.583**	0.100	0.379	-0.351	-0.022	0.089
Courtesy to others	0.500	0.370	0.212	-0.390	0.295	0.085	**0.634**	-0.049	0.433	-0.282	-0.032	-0.038
Position in society	-0.185	**0.662**	0.126	-0.186	-0.293	-0.023	**0.421**	0.437	-0.389	-0.279	-0.274	0.044
Family ownership	-0.570	0.158	-0.294	0.137	0.112	**0.576**	-0.195	**0.721**	0.053	0.149	0.052	-0.044
Government ownership	0.258	0.315	**-0.675**	-0.142	-0.108	0.199	0.132	**0.586**	**0.448**	0.067	-0.107	-0.224
Top Management	-0.008	-0.332	0.537	-0.031	0.256	-0.141	-0.113	-0.148	0.249	-0.305	0.458	**0.568**
Company size	0.599	-0.368	-0.107	0.363	-0.268	0.182	-0.120	-0.577	0.264	0.169	-0.229	-0.312
Company sector	0.040	-0.170	0.092	**0.416**	0.389	0.574	0.105	-0.091	0.146	0.249	**0.637**	**-0.546**
Experience and Qualification of nominee	-0.033	-0.589	**0.440**	0.363	-0.310	0.148	**0.527**	-0.110	**-0.631**	-0.025	0.047	-0.140
Nominee being on other boards	0.201	0.387	**0.505**	0.391	-0.235	0.060	**0.509**	-0.435	**-0.442**	-0.035	0.134	-0.047
Eigen values	**2.262**	**1.923**	**1.690**	**1.479**	**1.340**	**1.072**	**2.090**	**2.008**	**1.709**	**1.413**	**1.232**	**1.055**
Proportion of variance	**16.160**	**13.732**	**12.071**	**10.566**	**9.568**	**7.657**	**14.931**	**14.346**	**12.210**	**10.095**	**8.802**	**7.535**
Cumulative variance	**16.160**	**29.892**	**41.963**	**52.529**	**62.097**	**69.754**	**14.931**	**29.278**	**41.488**	**51.583**	**60.384**	**67.920**

Note: This table reports the results of Factor analysis. The top part of the table shows the weightings for the variables of each column the factors with high correlation in each column are highlighted in Bold. The bottom part of the table highlights the importance of each column in showing the eigenvalues, the percentage of variance and cumulative percentage. The Kaiser criterion was used to decide on the principal components which should be presented in the results. Kaiser (1960) recommends that principal components with latent roots greater than one should be retained.

Factor analysis was applied to the responses to the fourteen questions to identify the main influences on the selection of NEDs and INEDs. The first column in Table 7.7 shows that the corporate governance code, and government and regulatory bodies have the highest loadings, indicating the importance of the regulatory environment in influencing board selection of NEDs and INEDs; this finding is consistent with the requirements of the Saudi corporate governance code which mandates that boards should be composed of a majority of NEDs and have INEDs on them also.

The second column shows a high loading for membership of the royal family and position in society, suggesting that these factors are important in influencing the selection of NEDs, this evidence is again in line with the interview findings, suggesting a strong underlying trend in opinions. The Saudi culture gives more regard to individuals who have high social status and this would give in turn more power and legitimacy to the company and its board of directors. This column also shows a contrast between the role of these factors and 'experience and qualification' which has a high negative loading; one possible explanation for this pattern is that within the Saudi context the importance of social status in the nomination process exceeds the importance of experience and qualifications of an individual when appointed as a NED.

The third column indicates a high loading for experience and qualifications but it also shows a high (negative) loading for government ownership. This evidence might indicate that within government-controlled companies there is a different community of practice when selecting NEDs; an explanation of this finding may lie in the interview results where government-controlled companies were perceived as having a tendency to nominate government employees on to boards, even though such representatives were described by the interviewees as having very little input, precisely because they do not have the experience and qualifications necessary to serve as a director. Hence, there appears to be an institutional element within board structure in government-controlled companies, where government employees are nominated even though they are unqualified to serve as board members. This column is therefore labelled as ‘Personal traits vs. government influence’.

The fourth column in Table 7.7 shows a high loading for the factors ‘Islamic principles’, ‘company sector’ and ‘personal relationships’. According to the interview findings, close personal relationships are the norm when selecting board members, the negative loading for this factor suggests a more complex picture, with committees such as the adoption of Sharia committees and a need therefore for Sharia-oriented scholars (AAOIFI, 2004) being relevant. Sharia committees tend to be in sectors which mostly deal with Islamic products such as the financial sector (AAOIFI, 2004) and personal relationships might be less likely to be an influence in banking and related organisations. As the highest columns are likely to be related in this way, the column is labelled as ‘Company sector’.

The interview findings suggested that within family companies, family shareholders influence the selection of individuals on to the board; this is also reflected in column six which shows that family ownership is an important factor. This column is therefore labelled ‘family influence’. This evidence is consistent with other research which concludes that family-controlled companies influence the nomination of board members (Anderson and Reed, 2004). Company sector is also shown here to be important and, as previously shown in Figure 2.2 in Chapter Two, that family shareholders control many of the companies in the Saudi stock market, suggesting that the influence of family ownership is in companies within different sectors of the Saudi stock market.

The remainder of Table 7.7 shows six factors to be important for INEDs selection. The first column shows a high loading for: government and regulatory bodies; courtesy to others; position in society; and personal relationships. This might be because, on one hand, the requirements of having INEDs on listed companies boards initially appeared as regulations in the corporate governance code therefore influencing companies to have INEDs on their boards. On the other hand cultural factors are also important, which suggest that even though regulation requires companies to have INEDs they are still selected based on the social networks, this column reflects their importance, hence this column is labelled as 'cultural and regulatory influence'.

The second column shows a high loading for the factors family and government ownership which indicates a high influence of these factors in the selection process of INEDs. The column also shows the factor corporate governance code as important, this may elicit that although the corporate governance code has initiated that boards should have independent directors, INEDs, when on family or government controlled boards, are appointed through the influence of these controlling shareholders, This column is therefore labelled as 'Ownership'. These independent directors might be, as discussed in Chapter Six, friends of controlling shareholders and therefore are only labelled as independent, as previous literature has found that less independent (more affiliated) directors are appointed on boards in family firms (Anderson and Reed, 2004).

Interestingly, similar to the NEDs section of this table, the third column for INEDs also shows a high loading for the similar factors which are experience, qualifications and government ownership. This column is therefore also labelled as 'Personal traits vs. government influence'.

The fourth column shows the factors Islamic principles and members of the royal family as important. As discussed previously, these factors are relevant within the Saudi context which gives more regards and respect to people with social status such as those from the royal family and have high influential roles in Saudi society, whether in government or in public, and companies may benefit from having such individuals as INEDs on their boards. This factor is labelled as 'social status'.

The fifth column in labelled as 'Company sector' as it shows a high loading for this factor. This might be explained, as discussed earlier, that some sectors are more regulated in applying corporate governance practices. For example, the financial sector regulatory authority SAMA has issued a corporate governance code specifically for the financial sector, these regulations influence companies within the financial sector to adhere to more governance standards which include having more independent directors on the board and board committees. Thus, it seems that some sectors are applying more corporate governance practices than others due to more regulatory influence on such sectors. This seems to be a result of coercive isomorphic tendency's on specific sectors in adopting more governance. This is consistent with institutional theory that argues that pressures may vary across different sectors (Scott and Myers, 1991; Greenwood and Hinings, 1996).

The final column shows a high loading for factors 'top management' 'company sector'. This may suggest that top management have an influence on the selection of INEDs. However, this influence may vary across sectors. Such practices may be encountered in less regulated sectors. On the other hand, the interview findings indicated that in some companies, especially those with dispersed ownership, management are able to influence the selection of board members. This column is labelled as company characteristics.

The previous results shown in Tables 7.4 through 7.7 signify that the selection of NEDs and INEDs is influenced by the social and cultural norms that are present in the Saudi context, thus, influencing corporate governance structure. This confirms the institutional view that organizations are influenced by informal network of actors that are embedded within any given context (DiMaggio and Powell, 1983; 1991; Scott, 1995). It is also likely such influences may vary according to companies' sectors as it has been argued that due to the high regulatory role within some sectors, such as the financial sector, some of the cultural factors are less present within these sectors. Executives from companies within this sector may network together bringing their own community of practice. The results also highlight that the presence of INEDs has also been due to the influence by regulations imposed by the corporate governance code and the SAMA corporate governance code for the financial sector, although family controlled companies seem to be less affected by this factor. Also, it seems that there is still some ambiguity over the term independent which was highlighted from the neutral responses of INEDs themselves in the questionnaire to the influence of government and regulatory bodies. The next section will cover the responses from the questionnaires regarding the selection of committee members.

7.3.3 Selection of Board Committee Members

The questionnaire then asked which factors influenced the selection of board members to the audit, remuneration nomination and executive committees. The respondents all indicated that their boards had established both audit and remuneration and nomination committees, which is expected since these committees are mandatory requirements of the corporate governance code.[69] 70% of the respondents had executive committees in their companies. 27% and 30% of the respondents served on the audit and remuneration and nomination committees respectively while 15% of the respondents served on the executive committee. Only eight percent of the respondents had a Sharia committee but none of the respondents served on this committee.[70]

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[69] The audit committee has been part of the mandatory requirement of the corporate governance code for all listed companies since 2008 while the adoption of a remuneration and nomination committee only became mandatory in 2011.

[70] It is surprising that only eight present of the respondents had Sharia committees; a higher percentage would be expected given that 23% of the respondents are from the financial sector. Further investigation of this area might be a possible avenue for future research.

Table 7.8 Factors Influencing Board Committee's Selection

Factors	**Audit**			**Remuneration**			**Executive**		
	R	M	SD	R	M	SD	R	M	SD
CG code	**3**	**2.11**	0.981	**2**	**2.23**	1.05	13	3.33	1.774
Government and Regulatory bodies	**5**	**2.88**	1.400	**5**	**2.99**	1.31	**7**	**2.87**	1.936
Islamic values	14	4.24	0.854	12	4.26	0.66	12	3.27	1.988
Favouritism	12	3.91	1.259	13	4.28	0.79	8b	2.94	1.971
Personal relationships	**4**	**2.85**	1.467	6	3.06	1.34	4	2.37	1.781
Courtesy to others	11	3.74	1.265	8	3.78	1.31	9	2.96	2.003
Position in society	8	3.65	1.391	9	3.79	1.26	6	2.79	2.017
Family ownership	6	2.91	1.354	4	2.52	1.28	**3**	2.13	1.691
Government ownership	7	3.04	1.444	7	3.37	1.44	5	2.65	1.895
Top Management	9	3.68	1.216	11	4.04	1.05	11	3.17	1.961
Company size	10	3.71	1.262	10	3.95	1.04	8a	2.94	1.901
Company sector	13	3.95	1.065	14	4.21	0.75	10	3.10	1.960
Experience and Qualification of BM	**2**	**1.46**	0.613	**3**	**2.43**	1.11	**1**	**1.16**	0.895
BM being on similar committees	**1**	**1.44**	0.611	**1**	**1.59**	0.54	**2**	**1.17**	0.900

Note: this table shows the mean and standard deviation. R= factor ranks in the order of importance. M= means. SD = standard deviation. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree

Table 7.9 Factors Influencing the Selection of Audit Committee Members

Factors	Means					K-W	M-W										
							Chairmen and				CEO			NED		INED V BS	No Diff
	CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
CG code	1.67	2.56	1.79	1.95	2.32	0.29	0.21	0.92	0.37	0.32	0.08	0.22	0.59	0.37	0.11	0.36	0
Government and Regulatory bodies	2.00	2.00	3.37	1.90	3.55	0.00**	1.00	0.13	0.91	0.07	0.02*	0.90	0.00**	0.00**	0.69	0.00**	4
Islamic values	2.67	3.89	4.47	4.10	4.45	0.02*	0.10	0.01**	0.03*	0.01**	0.05	0.22	0.04*	0.19	0.92	0.18	4
Favouritism	3.67	4.00	2.53	4.20	4.58	0.00**	0.47	0.17	0.10	0.02*	0.01**	0.21	0.02*	0.00**	0.00**	0.09	5
Personal relationships	2.67	2.00	2.63	1.85	3.90	0.00**	0.32	0.88	0.20	0.11	0.22	0.85	0.00**	0.07	0.00**	0.00**	3
Courtesy to others	4.00	3.89	3.26	4.05	3.77	0.50	0.72	0.55	0.55	0.85	0.44	0.28	0.72	0.10	0.23	0.52	0
Position in society	2.00	4.22	3.63	3.40	3.81	0.22	0.05	0.12	0.19	0.07	0.32	0.14	0.84	0.61	0.41	0.21	0
Family ownership	2.00	3.56	3.37	2.15	3.03	0.02*	0.04*	0.09	0.85	0.31	0.75	0.00**	0.39	0.00**	0.45	0.06	3
Government ownership	2.67	3.33	2.47	2.55	3.65	0.02*	0.33	0.52	0.61	0.13	0.11	0.09	0.30	0.52	0.02*	0.01**	2
Top Management	4.00	3.89	3.95	2.25	4.35	0.00**	0.72	0.65	0.01**	0.26	0.48	0.00**	0.06	0.00**	0.37	0.00**	4
Company size	2.67	3.44	3.63	3.35	4.16	0.10	0.23	0.20	0.35	0.04*	0.76	0.92	0.10	0.60	0.16	0.05	1
Company sector	2.67	3.67	4.05	3.50	4.39	0.01**	0.14	0.05	0.20	0.01**	0.09	0.86	0.01**	0.09	0.36	0.01**	3
Experience and Qualification of BM	1.67	1.33	1.32	1.55	1.52	0.66	0.47	0.40	0.87	0.62	0.94	0.36	0.52	0.21	0.33	0.56	0
BM being on similar committees on other boards	1.33	1.44	1.32	1.55	1.45	0.79	0.75	0.92	0.43	0.70	0.79	0.46	0.97	0.28	0.67	0.33	0
							1	1	2	4	2	2	5	4	3	5	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

Table 7.8 indicates that the respondents believed that experience and qualifications of board were the most important in influencing the selection of audit, remuneration and nomination and executive committee members (means of 1.46 2.43, and 1.16 respectively), while they also thought that being on other similar committees in other companies was also an influential factor, this might be expected since board committee membership requires more specific knowledge and therefore needs a focus more on qualifications and experience.

The respondents were in agreement that the KSA corporate governance code influenced the selection of audit committee and remuneration and nomination committee members (means of 2.11 and 2.23 respectively), although they did not think the code had any influence on the selection process of the executive committee (mean 3.33); this might be expected as the code does not refer to the executive committee in any of its sections, whereas it has mandatory sections on both the audit and remuneration and nomination committees for listed companies.

Inspection of the table above reveals that the respondents had mixed opinions regarding the influence of some of the factors on the selection process of board committees. CH and INEDs agreed that family ownership (means of 2.00 and 2.15 respectively) and government ownership (means of 2.67 and 2.55 respectively) influenced the selection onto the audit committee, whereas the executives (groups CEOs and BSs) had different views, this might be because executives want to demonstrate that the selection process of board members is more objective than being influenced by large shareholders to show that they are applying normative governance practices. Group CH and INEDs were also in agreement that government and regulatory bodies influenced the selection of audit committee members as well as CEOs, whereas groups BS and NED disagreed. When looking at the results from the type of ownership of respondents companies, respondents from both family and foreign controlled boards disagreed with the influence of government and regulatory bodies, whereas those from government controlled boards and companies with dispersed ownership agreed; this is consistent with the results in chapter six where the interviews within government and dispersed owned firms had audit committee members from SOCPA.

Only the respondents from government controlled firms indicated that government ownership influenced the selection of audit committee members (mean 2.04), while the respondents from family – and dispersed- ownership indicated that family ownership influenced the selection of audit committee members (means of 1.88 and 2.63 respectively), these findings suggest that ownership is an important factor in influencing the selection of audit committee members. It would be expected that family ownership does not influence companies with dispersed shareholders, an explanation of this finding might be that such companies before becoming listed on the KSA stock exchange had family ownership, however, the amount of ownership decreased allowing for the company to be classified on the market as dispersely owned, although the influence of the controlling family might still be present. No respondents thought that top management influenced the selection of audit committee members except for INEDs. This is consistent with the INEDs views in the interviews that companies with dispersed ownership and where large shareholders are absent, management have more control over the nomination of board committee members. However, when analysing the respondents based on the type of ownership, respondent from all types of companies disagreed that top management influenced the selection of audit committee members; future research might investigate the influence of management on the adoption of governance practices.

Inspection of the table above revealed that CEOs and INEDs had similar views, which shows from having the least significant differences in the Mann- Whitney results; this might be because of the level of involvement between management and board committees, while groups BS and INEDs had the most differences of opinions; this might be because INEDs take on the role of committee members while BS do not take part in committee memberships.

Table 7.10 shows that most respondent groups indicated that government, regulatory bodies and family ownership influenced the selection of board members onto the remuneration and nomination committee, but group BS disagreed, this might be because BS do not have any voting power or take part in nominating board members onto committees, and hence are less knowledgeable about this process.

Table 7.10 Factors Influencing the Selection of Remuneration and Nomination Committee Members

Factors	MEANS					K-W	M-W										Sig M
							CH and				CEO and			NED and		INED& BS	
	CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
CG code	2.33	2.33	1.95	2.10	2.45	0.74	0.92	0.65	1.00	0.83	0.43	0.70	0.87	0.55	0.19	0.41	0
Government and regulatory bodies	2.67	2.33	2.32	2.15	3.55	**0.00****	0.47	0.28	0.05	0.21	0.05	0.28	0.01**	0.01**	0.67	0.00**	3
Islamic values	3.33	3.56	4.42	4.30	4.42	**0.00****	0.67	0.02	0.01**	0.02*	0.01*	0.01**	0.00**	0.40	0.98	0.34	5
Favouritism	4.67	3.22	4.11	4.40	4.58	**0.00****	0.02*	0.17	0.40	0.91	0.00**	0.00*	0.00**	0.28	0.01**	0.12	5
Personal relationships	4.00	1.89	2.21	2.95	3.90	**0.00****	0.01**	0.01**	0.08	0.56	0.48	0.01*	0.00**	0.02*	0.00**	0.00**	7
Courtesy to others	3.67	4.22	3.21	4.45	3.77	**0.01****	0.01**	0.17	0.00**	0.02*	0.17	0.39	0.57	0.02*	0.21	0.12	4
Position in society	3.33	4.22	3.84	3.65	3.77	0.70	0.18	0.33	0.60	0.35	0.79	0.24	0.73	0.45	0.94	0.44	0
Family ownership	2.33	2.44	2.63	2.15	3.87	**0.00****	0.77	0.10	1.00	0.29	0.05	0.45	0.34	0.01**	0.00**	0.01**	3
Government ownership	3.00	3.22	3.58	2.85	3.65	0.19	0.70	0.37	0.84	0.25	0.37	0.49	0.25	0.09	0.94	0.03*	1
Top Management	3.67	1.67	4.32	4.40	4.35	**0.00****	0.01**	0.15	0.06	0.10	0.00**	0.00**	0.00**	0.90	0.93	0.97	4
Company size	2.67	3.44	3.84	4.15	4.16	0.14	0.32	0.12	0.04	0.04*	0.35	0.14	0.08	0.64	0.46	0.76	1
Company sector	2.67	4.00	4.32	4.15	4.39	0.06	0.05	0.02*	0.04	0.01*	0.18	0.53	0.08	0.49	0.69	0.26	2
Experience and Qualification of BM	2.00	2.56	2.26	2.65	2.39	0.75	0.57	1.00	0.19	0.64	0.61	0.90	0.73	0.24	0.69	0.39	0
BM being on similar committees on other boards	2.67	1.44	1.53	1.75	1.45	**0.02***	0.02*	0.01**	0.01**	0.01*	0.69	0.12	0.97	0.15	0.61	0.04*	5
Number of Significant M							5	3	3	5	3	4	5	4	3	5	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

Inspection of the table above reveals that most of the significant differences of the Mann-Whitney results were regarding the factor personal relationships. CEOs and NEDs thought that personal relationships influenced the selection of board members to the remuneration and nomination committee; this might be because NEDs represent large shareholders and like to have those whom are from their same networks on this committee with them, and NEDs are usually on this committee because of its influence on the nomination process onto the board. Groups CH and BS disagreed regarding the influence of personal relationships which might be because of them being less involved with this committee, while INEDs had mixed views represented in the neutral mean, this might be because the questionnaire caught the views of both truly independent and affiliated INEDs and therefore had mixed views.

The respondent groups had different views regarding whether management influenced the selection of board members onto the remuneration and nomination committee. CEOs agreed that management had an influence while all other groups disagreed, this is not surprising, as the evidence from the interviews showed that companies had different approaches when composing board committees, considering managements' recommendations might indicate that CEOs themselves have influence in this process. The corporate governance code states that the role of allocating board members to board committees is part of the roles of the remuneration and nomination committee, which is a mandatory requirement since 2011, the evidence shows that within some companies this role has not yet been practiced by the remuneration and nomination committee. Thus, there seems to be an influence over the selection of remuneration and nomination committee members depending on the controlling shareholder, in government controlled boards the government has a control over committee nomination, while in family companies it is the controlling family.

It seems that there are some similarities regarding some of the factors between the groups. NEDs and BSs had similar views, while groups CEOs and INEDs had similar views. One explanation might be that CEOs are, as discussed in chapter 6, paid employees while INEDs are board members that are invited to join the board, and both are beholden to large shareholders, who employ/nominate them, as large shareholders, who are NEDs in most cases, control board decisions, including committees' composition.

Table 7.11 Factor Analysis - Selection of Audit and Remuneration and Nomination committees

Factors	Audit committee				Remuneration & Nomination committee					
	1	2	3	4	1	2	3	4	5	6
	Social & cultural	Sector	Personal traits	Regulation	Social & cultural	Sector	Family Ownership	Personal traits	Committee experience	Regulation
CG code	0.484	-0.033	0.012	**0.477**	0.302	0.047	**-0.485**	0.029	-0.366	**0.550**
Gov and Regulatory bodies	0.589	-0.075	-0.458	-0.132	0.550	-0.330	0.322	0.059	0.162	-0.302
Islamic values	0.585	0.433	0.363	-0.364	0.390	0.638	0.152	-0.033	0.194	-0.024
Favouritism	0.599	-0.176	0.253	-0.023	**0.493**	0.343	-0.294	0.082	0.365	-0.116
Personal relationships	**0.725**	-0.219	-0.312	-0.158	**0.724**	-0.115	-0.354	-0.149	0.053	0.106
Courtesy to others	**0.595**	-0.445	0.201	-0.239	**0.639**	-0.294	-0.086	0.197	-0.168	-0.085
Position in society	**0.573**	-0.258	-0.026	0.201	0.474	-0.489	0.313	0.229	-0.032	0.139
Family ownership	0.081	0.698	-0.212	0.451	-0.198	0.107	**0.475**	0.450	0.279	0.154
Government ownership	0.621	-0.396	-0.157	0.158	0.630	-0.294	0.330	-0.205	-0.161	0.116
Top Management	0.579	0.255	**-0.465**	0.093	0.445	0.477	-0.100	-0.223	0.342	-0.282
Company size	0.372	**0.640**	-0.054	-0.090	0.075	**0.670**	-0.042	0.368	-0.353	0.021
Company sector	0.548	**0.512**	0.161	-0.105	0.379	**0.518**	0.406	0.202	**-0.451**	0.049
Experience and Qualification of BM	0.229	-0.163	0.493	**0.556**	0.026	-0.265	**-0.447**	**0.711**	0.236	-0.156
BM being on other similar committees	0.310	0.145	**0.723**	-0.031	0.069	0.086	0.141	-0.005	**0.641**	**0.656**
Eigenvalues	**3.805**	**1.968**	**1.626**	**1.067**	**2.735**	**2.095**	**1.411**	**1.379**	**1.102**	**1.020**
Proportion of variance	**27.177**	**14.055**	**11.615**	**7.619**	**19.533**	**14.962**	**10.078**	**9.852**	**7.868**	**7.284**
Cumulative variance	**27.177**	**41.232**	**52.847**	**60.465**	**19.533**	**34.494**	**44.572**	**54.423**	**62.292**	**69.576**

Note: This table reports the results of Factor analysis. The top part of the table shows the weightings for the variables of each column the factors with high correlation in each column are highlighted in Bold. The bottom part of the table highlights the importance of each column in showing the eigenvalues, the percentage of variance and cumulative percentage. The Kaiser criterion was used to decide on the principal components which should be presented in the results. Kaiser (1960) recommends that principal components with latent roots greater than one should be retained.

The factor analysis reported in Table 7.11 narrowed down the most important factors that influence the selection of audit and remuneration and nomination committee members into four and six factors respectively. The first factor for the audit committees is labelled as “social and cultural” as the column shows a high loading for favouritism, personal relationships, courtesy to others and position in society this is also consistent with the findings in chapter six. This elicits how social and culture factors are important in the selection process of this committee, suggesting an underlying trend regards the influence of socio-cultural factors on governance practice and confirms that organizational structures are influenced by the prevailing institutional norms within society (DiMaggio and Powell, 1991; Scott and Meyer, 1991; Scott, 1995).

‘Sector’ is the label for the second column. Characteristics such as firm sector and size show a high correlation, this might be because within some sectors there are more coercive influences on companies to adopt more governance within different sectors, for example the regulatory body of the financial sector SAMA has coercively institutionalised financial institutions to have audit committees composed of a majority of external members who are not part of the board, thus, ensuring the independence of this committee. Institutional theory argues that the pace of institutional influence may vary across sectors because of the differences in the structures of each sector which allows for organisations to be heterogeneous (Greenwood and Hinings, 1996). As a result of such pressures, there is a different community of practice between companies in the financial sector and non-financial sector. This is because financial sector companies have an embedded institutional logic that may arise from the coercive pressure of the regulator which has resulted in having a community of practice that is different from other sectors.

The third column in the table is labelled “Personal traits”. This column shows a contrast between the personal traits factor and “Top management”. According to the interview findings management, in some companies, have an influence over the nomination of directors to board committees, this may have led top management to influence audit committee selection; having members that are selected by management to serve on the audit committee may reduce the number of experienced and qualified independent members resulting in a reduction in the monitoring role. These findings are consistent with the literature that argues that top management influence board committee selection processes and leads to less independent directors serving on such committees, and reduces their effectiveness and independence (Klein, 1998; Shivdasani and Yermack, 1999; Beasley and Salterio, 2001; Carcello et al., 2011).

The fourth factor for audit committees is termed ‘Regulation’, the corporate governance code stresses having experienced and qualified individuals on the audit committee; this indicates that regulations are important in influencing governance structures which is also the result of the corporate governance code obligating companies to establish audit committees. This is consistent with prior literature that pointed to the importance of regulatory factors for adopting governance practises in emerging economies (Black and Jang, 2006).

In the remuneration and nomination committee section of Table 7.11, the first and second column are identical to those of the audit committee section therefore are also labelled as ‘Social and cultural’ and ‘Sector’ respectively.

The third factor indicates a high loading for ‘family ownership’ while it also shows a negative loading for the corporate governance code and experience and qualification, this is because, as discussed in Chapter Six, in family controlled companies family members choose the committee members despite the recommendations of the corporate governance code and the experience of the candidate.

The final factor for the remuneration and nomination committee is termed ‘Regulation’ where it stresses the importance of the factors ‘corporate governance code’ and board member being on similar committees on other boards’, one possible interpretation is that the code does not specify the qualifications needed for the remuneration and nomination committee members. Since the only experience that could be considered when selecting a board member onto this committee is for this individual to have previously served on other remuneration and nomination committees in other companies, having members on the committee that are on the same committee in other companies would show some level of experience and being a normative isomorphic influence on to practice. This also elicits that the remuneration and nomination committee concept is new for Saudi listed companies.

In the context of the previous results, it seems that similar factors influence the selection process of the members of both audit and remuneration and nomination committees, but varies across sectors; and maybe the result of the regulatory bodies having greater influence on companies in the financial sector. This has led board committees in the financial sector to have more independent members, indicating a community of practice within this sector that is differ from others regarding board committees.

Having discussed the factors that influence board and committee composition, the analysis now follows on specific governance issues starting with the practices of board committees.

7.3.4 Factors Influencing Board Committee's Practice

Respondents were asked to indicate the factors that influenced the practice of board committees. The questionnaire focused on the audit and remuneration and nomination committees as all listed companies are required to have them. Unlike previous questions, the Likert scale was designed to capture whether the set of factors either contributed or prevented board committees in practicing their roles.[71]

[71] The five point Likert scale on this particular question in the questionnaire ranged as: 1=strongly contributes, 2= contributes, 3=neutral, 4= prevented, 5=strongly prevented.

Table 7.12 Factors Influencing the Practices of the Audit Committees

Factors	M	SD	Means					K-W P value	Mann – Whitney										
									Chairmen &				CEO &			NED &		INED &BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Corporate governance code	1.65	0.66	2.00	1.89	1.67	1.58	1.58	0.49	0.72	0.32	0.20	0.16	0.36	0.20	0.17	0.76	0.92	0.76	0
Gov and Regulatory bodies	1.93	0.81	2.33	2.56	1.44	2.11	1.87	0.00**	0.62	0.04*	0.60	0.22	0.00**	0.19	0.02*	0.01**	0.02*	0.22	5
Economic factors	2.89	0.48	2.67	3.00	3.06	2.95	2.74	0.16	0.08	0.16	0.12	0.55	0.67	0.49	0.20	0.32	0.07	0.24	0
Favouritism	3.96	0.85	3.33	4.00	3.17	4.00	4.45	0.00**	0.16	0.68	0.10	0.02*	0.01**	0.75	0.08	0.00**	0.00**	0.08	4
Personal relationships	3.96	0.73	3.67	4.00	3.39	4.00	4.29	0.00**	0.47	0.46	0.31	0.12	0.04*	0.87	0.26	0.01**	0.00**	0.20	3
Courtesy to others	3.88	0.76	3.67	4.00	3.22	3.94	4.23	0.00**	0.47	0.12	0.53	0.20	0.00**	0.83	0.39	0.00**	0.00**	0.19	3
Position in society	3.91	0.80	3.33	4.11	3.67	3.19	4.42	0.00**	0.08	0.62	0.58	0.01**	0.18	0.00**	0.17	0.12	0.00**	0.00**	4
Family ownership	2.68	1.08	2.67	3.00	1.67	4.06	2.42	0.00**	0.08	0.05	0.00**	0.70	0.00**	0.00**	0.03*	0.00**	0.00**	0.00**	7
Government ownership	3.76	0.67	2.67	3.56	3.72	4.12	3.74	0.01**	0.05	0.01**	0.01**	0.02*	0.40	0.02*	0.52	0.02*	0.92	0.04*	6
Top Management	2.18	1.18	2.33	1.78	1.61	4.12	1.55	0.00**	0.21	0.07	0.00**	0.04*	0.40	0.00**	0.35	0.00**	0.91	0.00**	5
Company size	2.99	0.25	3.00	2.89	2.94	3.06	3.00	0.51	0.56	0.68	0.67	1.00	0.61	0.14	0.29	0.16	0.45	0.44	0
Company sector	2.87	0.47	3.00	2.89	2.89	2.82	2.87	0.97	0.56	0.55	0.67	0.58	1.00	0.68	0.93	0.63	0.91	0.70	0
Experience of BM	1.72	0.53	2.00	1.67	1.44	1.82	1.81	0.07	0.34	0.09	0.44	0.46	0.40	0.37	0.41	0.02*	0.02*	0.86	2
Qualification of BM	1.69	0.65	2.00	1.89	1.39	1.59	1.84	0.03*	0.72	0.05	0.22	0.52	0.04*	0.21	0.83	0.53	0.00**	0.08	2
BM being on similar committees on other boards	1.74	0.57	2.67	1.67	1.67	1.71	1.74	0.15	0.06	0.03*	0.01**	0.01**	0.93	0.73	0.62	0.74	0.59	0.85	3
									0	3	4	5	6	4	2	8	8	4	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly contributes, 2= contributes. 3= neutral, 4= prevents, 5= strongly prevents. A */** indicates significance at the 5%/1% level respectively.

Table 7.12 shows the respondents' perceptions regarding the factors that contribute/prevent audit committees in their practices. The corporate governance code, government and regulatory bodies, experience and qualifications and being on similar committees in other companies were ranked as the most important factors to influence audit committees practices (means of 1.65, 1.93, 1.72, 1.69 and 1.74 respectively). This is consistent with previous literature that has indicated the importance of experience to the role of audit committees (Beasley et al., 2000; Carcello and Neal, 2003; Klein, 2002; Yang and Krishnan, 2005). Top management and family ownership were also perceived as influencing the audit committee. However, the Kruskal Wallis and Mann- Whitney tests in Table 7.12 indicate that the INEDs thought that both factors hindered the committee from practising its roles (means of 4.06 and 4.12 respectively); one possible interpretation highlighted in Chapter Six is that, in some cases, INEDs are not able to truly act as independent directors on these committees when family owners are present, as family controlling shareholders become more involved in the role of the committee and therefore obstruct supposed independent directors from practicing their role which hinders the committees' role.

The table above shows that the respondents indicated that position in society, personal relationships, courtesy to others and favouritism were all factors that prevented the audit committees in carrying out their roles (means of 3.91, 3.96, 3.88 and 3.96 respectively). Thus, cultural factors may have a negative influence on this committee in carrying out its roles effectively. This finding accords with the literature, which has argued the important influence of environmental and institutional factors on the roles of audit committees (Turley and Zaman, 2004).

Most of the respondent groups indicated that government ownership hinders the role of the audit committee, when controlling for the respondent type of ownership, respondents from government controlled boards also agreed to this point. This in consistent with the interview findings that pointed out that government employees are nominated to board committees through government ownership and are often ineffective.

Table 7.13 Factors Influencing the Practices of the Remuneration & Nomination Committee

Factors	M	SD	Means					K-W	M-W										
									Chairmen &				CEO &			NED &		INED &BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Corporate governance code	1.66	0.60	2.00	1.78	1.50	1.65	1.71	0.53	0.58	0.19	0.29	0.41	0.29	0.49	0.82	0.74	0.19	0.42	0
Government and Regulatory bodies	2.34	1.07	2.50	2.56	1.61	3.59	2.00	0.00**	0.90	0.09	0.12	0.32	0.01**	0.01**	0.07	0.00**	0.05	0.00**	4
Economic factors	2.94	0.37	2.50	3.11	2.89	3.00	2.90	0.12	0.08	0.15	0.00**	0.13	0.11	0.16	0.19	0.15	0.69	0.43	0
Favouritism	4.13	0.80	3.50	4.22	3.61	4.00	4.52	0.00**	0.10	0.71	0.20	0.04*	0.01**	0.92	0.12	0.02*	0.00**	0.07	4
Personal relationships	3.60	1.04	4.50	3.78	2.44	3.88	4.00	0.00**	0.26	0.01**	0.29	0.35	0.00**	0.35	0.42	0.00**	0.00**	0.86	4
Courtesy to others	3.87	0.85	4.00	4.22	3.17	3.88	4.16	0.00**	0.48	0.04*	0.88	0.67	0.00**	0.54	0.90	0.00**	0.00**	0.56	4
Position in society	3.64	1.02	3.50	3.56	3.39	2.94	4.19	0.00**	0.80	0.84	0.19	0.15	0.65	0.06	0.06	0.25	0.01**	0.00**	2
Family ownership	2.56	1.11	3.50	3.00	1.44	3.94	2.26	0.00**	0.03*	0.01**	0.23	0.05	0.00**	0.00**	0.01**	0.00**	0.00**	0.00**	8
Government ownership	3.83	0.66	3.00	3.67	3.94	3.94	3.81	0.15	0.10	0.02*	0.08	0.06	0.21	0.19	0.57	0.65	0.40	0.28	1
Top Management	2.26	0.98	2.00	1.89	1.78	3.76	1.84	0.00**	0.79	0.53	0.01**	0.63	0.75	0.00**	0.91	0.00**	0.69	0.00**	4
Company size	3.00	0.28	2.50	2.89	3.00	3.06	3.03	0.06	0.22	0.00**	0.02*	0.04*	0.16	0.14	0.24	0.30	0.65	0.77	0
Company sector	2.90	0.48	3.00	2.89	2.94	2.82	2.90	0.99	0.64	0.74	0.73	0.79	0.61	0.68	0.76	0.93	0.89	0.98	0
Experience of BM	1.77	0.58	2.00	1.67	1.56	1.82	1.87	0.30	0.43	0.26	0.53	0.63	0.71	0.37	0.35	0.10	0.07	0.98	0
Qualification of BM	1.95	0.71	2.00	2.11	1.22	2.82	1.84	0.00**	0.76	0.03*	0.01**	0.60	0.00**	0.00**	0.16	0.00**	0.00**	0.00**	7
BM being on similar committees on other boards	1.65	0.53	2.50	1.56	1.56	1.71	1.65	0.34	0.09	0.07	0.07	0.06	0.88	0.45	0.63	0.50	0.71	0.67	0
									1	5	4	2	6	4	1	7	6	5	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly contributes, 2= contributes. 3= neutral, 4= prevents, 5= strongly prevents. A */** indicates significance at the 5%/1% level respectively.

Table 7.13 shows that, similar to the audit committee, the corporate governance code and government and regulatory bodies are perceived as positive factors contributing to the role of the remuneration and nomination committee. This is expected given that the code cites the roles and responsibilities of this committee and made it mandatory for all listed companies.

Inspection of Table 7.13 shows that INEDs indicated that government and regulatory bodies contribute to the practices of the remuneration and nomination committee, these were also the views of the respondents from the ownership category ‘other’; this might be explained by pointing out that government and regulatory bodies and professional bodies, such as SOCPA, have considered the role of the audit committee by issuing guidelines regarding its role to ensure its independence and practices. However, independent directors might believe that government and regulatory bodies are not enforcing the independence of members of the remuneration and nomination committee and hence INEDs opinions differ from other groups.

The respondent all agreed that cultural factors hinder the role of the remuneration and nomination committee. Regarding personal relationships the NEDs indicated that this factor was important to the committees practice; this might be because, as in the previous section of this chapter and in Chapter Six, that a company’s controlling shareholders influence the selection of committee members, and NEDs who are usually large shareholders or government representatives choose committee members on the basis of trust through personal relationships and their same social network. The respondents indicated that family ownership affected the committee’s in its practice. However, the Mann-Whitney section of Table 7.13 shows the group’s views on the influence of family ownership were different, NEDs and BSs indicated that family ownership contributes to the committee roles, while the CEO group had mixed views and CH and INED disagreed, indicating that family ownership prevented the committee in practising its roles which might be because, as discussed in the interview chapter, family and large shareholders influence board committees. When analysing this result by ownership type respondents from all types of ownership agreed that family ownership assisted the committees in its roles except those classified as ‘other’. The respondents indicated that government ownership hindered the committee in practicing its roles. When analysing this result by the type of ownership this view was also strongly shared by all the respondents even the respondents who were on government controlled boards with means greater than 3.5. This might be because as stated previously that the government, through its ownership, appoints government officials to board committees who are inadequate resulting in them being ineffective on board committees.

INEDs were dissatisfied with the involvement of management; this view was also shared with the respondents from companies that were classified as “other” ownership, this is also in line with the results in chapter six, where some of the board members in dispersed owned companies pointed out the reluctance of top management in engaging with the requests of the audit committee.

Table 7.14 Factors Analysis - Practices of Board Committees

Factors	Audit					Remuneration & Nomination				
	1	2	3	4	5	1	2	3	4	5
	Cultural influence	Family influence	Personal traits	Sector	Ineffective governance'	Family influence	Cultural influence	Sector	Personal traits	Ineffectiv e governan
Corporate governance code	0.213	0.018	0.084	0.132	**-0.799**	0.294	0.307	0.168	0.233	**-0.640**
Government and Regulatory bodies	0.133	0.545	-0.082	0.346	0.121	0.603	-0.475	-0.126	-0.129	0.042
Economic factors	-0.055	0.256	-0.036	**0.673**	0.292	0.264	-0.177	0.462	-0.630	0.258
Favouritism	**0.809**	-0.083	-0.072	0.065	0.077	0.515	**0.677**	-0.092	-0.073	0.194
Personal relationships	**0.899**	-0.135	-0.096	-0.088	-0.040	0.761	**0.457**	-0.070	-0.072	-0.084
Courtesy to others	**0.836**	-0.064	-0.062	-0.111	-0.123	0.619	**0.593**	0.000	-0.150	0.036
Position in society	**0.602**	-0.464	0.165	0.142	0.318	0.146	**0.748**	-0.046	0.064	0.127
Family ownership	0.253	**0.732**	-0.430	0.081	-0.049	**0.717**	-0.457	-0.055	0.001	-0.158
Government ownership	0.178	0.164	**-0.507**	-0.067	0.169	0.047	-0.031	-0.444	-0.207	0.405
Top Management	-0.001	**0.646**	-0.476	-0.228	-0.200	0.621	-0.464	-0.172	-0.065	-0.109
Company size	0.089	0.205	-0.239	-0.229	0.383	-0.109	0.022	**-0.689**	0.056	0.175
Company sector	0.076	-0.075	-0.035	**0.722**	-0.196	-0.021	0.046	**0.652**	-0.272	0.073
Experience of BM	0.187	0.540	**0.594**	-0.169	-0.009	0.310	-0.072	0.319	**0.520**	0.398
Qualification of BM	0.292	0.392	**0.593**	-0.055	0.058	**0.790**	-0.335	-0.061	0.147	0.003
BM being on similar committees on other boards	0.040	0.472	**0.645**	0.004	0.084	0.213	-0.101	0.315	**0.581**	0.348
Eigen values	**2.822**	**2.303**	**1.908**	**1.303**	**1.129**	**3.448**	**2.486**	**1.606**	**1.260**	**1.057**
Proportion of variance	**18.813**	**15.357**	**12.72**	**8.686**	**7.526**	**22.985**	**16.570**	**10.708**	**8.401**	**7.044**
Cumulative variance	**18.813**	**34.169**	**46.889**	**55.576**	**63.101**	**22.985**	**39.555**	**50.263**	**58.664**	**65.708**

Note: This table reports the results of Factor analysis. The top part of the table shows the weightings for the variables of each column the factors with high correlation in each column are highlighted in Bold. The bottom part of the table highlights the importance of each column in showing the eigenvalues, the percentage of variance and cumulative percentage. The Kaiser criterion was used to decide on the principal components which should be presented in the results. Kaiser (1960) recommends that principal components with latent roots greater than one should be retained.

Factor analysis was applied to the responses of the fifteen factors to identify the main influences on board committees. For the audit committee the first column in Table 7.14 shows the first factor is ‘cultural influence’ consistent with the findings of the interviews. The second column is labelled ‘family influence’ as it shows family ownership and top management as important, since in many family companies family members also hold management positions and family members are involved in the role of audit committees.

The third column is ‘personal traits’ with experience and qualifications and being a member on similar committees in other companies influencing the objectives of the audit committee, although government ownership has a negative value, this may indicate, as discussed in Chapter Six, that government employees do not hold the relevant experience and qualifications to serve on board committees, becoming a burden on the committee in exercising its roles.

The fourth factor shows a high loading for sector and the economy, thus the type of industry may affect the level of business risks of a company, which is argued by previous studies point out that in some sectors there are more risks involved (Goodwin and Kent, 2006; Carcello et al., 2011) for example the financial sector (Wallace and Kreutzfeldt, 1991). As argued in the interview chapter, audit committees in the banking sector have more regulation that influences the composition of these committees. This factor is therefore labelled ‘sector’.

The fifth column reflects how the corporate governance code in relation to the role of the audit committee has not been achieved, which is a result of not having truly independent audit committees which might be why the audit function in KSA companies is inadequate (Al-Twaijry et al., 2003). Although the fifth column of Table 7.11 shows that the corporate governance code is important when selecting audit committee members, the negative sign in Table 7.14 above might suggests that this is mere a ceremonial practice for legitimacy reasons to validate companies' activities and is decoupled from practice in reality (Meyer and Rowan 1977; 1978; Zucker, 1987; Covaledki and Dirsmith, 1988).

For the role of the remuneration and nomination committee, the first factor in Table 7.14 shows family ownership and qualifications of board members as important factors influencing the role of this committee, as are the cultural factors which are labelled as the second column.

The third factor shows company size and sector as important. This might show that as discussed previously, the adoption of corporate governance structures may vary across sectors, a company's sector may require more involvement of its committees, also, as a company's size increases it demands a greater level of monitoring than smaller companies with less complex structures (Subramaniam et al., 2009).

The fourth factor shows experience and board members being on similar committees in other boards as important factors, labelled 'personal traits'. This indicates the importance of having experienced directors on board. This finding is consistent with prior literature that finds that a board member's other directorships and experience are important attributes to have and contribute to the independence of the nomination committee (Vafeas, 1999).

The table shows that family ownership is an important influence on both committees. Thus, even though there are some similarities within companies corporate governance practices it varies depending on their size, sector and type of ownership. This highlights the importance of the regulatory framework and a need for better policies regarding governance practices especially in emerging economies (Black and Jang, 2006), while also, taking into account reframing governance to the Saudi context (Falgi, 2009; Al-harkan, 2005; Alajlan, 2005).

Further, the final column shows the corporate governance code has not achieved its intended objective as the roles expected from the remuneration and nomination committee collides with the cultural expectations which result in having possibly ineffective remuneration and nomination committee because the coercive isomorphic pressure imposed by the regulator has merely resulted in it being a ceremonial governance practice with practice decoupled from policy and material carriers (Meyers and Rowan, 1977; DiMaggio and Powell, 1991; Friedland and Alford, 1991; Carruthers, 1995).

The analyses reported in Tables 7.12 to 7.14 indicate that board committees are affected by sociocultural factors, it also indicates that audit and remuneration and nomination committees practices vary due to company size, sector and the type of ownership as there seems to be a variation within family- and government- controlled companies representing several community of practices and embedded institutional logics.

Table 7.15 Factors Infusing the Adoption of Cumulative Voting

Factors	M	SD	Group Means					K-W	M-W										
									CH &				CEO &			NED &		INED & BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Corporate governance code	1.76	0.81	2.00	1.22	1.61	2.32	1.65	0.00**	0.13	0.48	0.78	0.51	0.15	0.00**	0.08	0.03*	0.82	0.02*	3
Government and Regulatory bodies	1.95	0.91	2.00	1.78	1.61	2.68	1.74	0.00**	0.71	0.48	0.47	0.64	0.63	0.04*	0.94	0.00**	0.54	0.00**	3
Members of the royal family	4.05	0.79	4.00	3.56	3.89	4.32	4.13	0.16	0.44	0.85	0.55	0.81	0.37	0.01**	0.07	0.12	0.34	0.51	1
Islamic values	4.04	0.76	4.00	3.56	4.28	4.00	4.06	0.14	0.44	0.62	1.00	0.91	0.04*	0.11	0.09	0.22	0.34	0.75	1
Personal relationships	4.18	0.66	4.00	3.78	4.50	4.00	4.23	0.09	0.62	0.35	1.00	0.68	0.01**	0.32	0.07	0.01**	0.19	0.21	2
Courtesy to others	4.12	0.79	4.00	3.67	4.39	3.95	4.19	0.20	0.57	0.48	1.00	0.72	0.04*	0.34	0.08	0.10	0.30	0.34	1
Position in society	4.10	0.89	5.00	4.44	4.39	3.89	3.94	0.21	0.52	0.46	0.16	0.20	0.83	0.09	0.13	0.05	0.09	0.62	0
Family ownership	2.54	1.46	2.00	1.67	3.39	1.74	2.81	0.06	0.43	0.56	0.56	0.65	0.02	0.26	0.02*	0.02*	0.19	0.01**	3
Government ownership	2.97	1.42	2.00	3.11	3.44	2.00	3.30	0.58	0.35	0.49	1.00	0.38	0.52	0.01**	0.64	0.02*	0.36	0.00**	3
Top Management	3.22	1.34	2.00	1.67	3.50	3.89	3.13	0.00**	0.51	0.19	0.20	0.35	0.00**	0.00**	0.00	0.26	0.37	0.04*	3
Company size	4.29	0.64	4.00	4.11	4.63	3.95	4.35	0.28	0.85	0.22	0.92	0.50	0.07	0.54	0.39	0.00**	0.12	0.03*	2
Company sector	4.11	0.98	2.00	3.89	4.63	3.90	4.06	0.11	0.19	0.06	0.08	0.12	0.25	0.82	1.00	0.00**	0.03*	0.20	2
Experience and Qualification of BM	4.05	1.04	2.00	3.00	4.58	3.90	4.19	0.00**	0.37	0.06	0.16	0.09	0.00**	0.07	0.01**	0.05	0.11	0.45	2
BM being on other company boards	3.96	1.20	2.00	3.00	4.21	4.45	3.84	0.03*	0.43	0.15	0.07	0.17	0.04*	0.01	0.10	0.72	0.14	0.05	1
									0	0	0	0	6	5	2	7	1	6	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

7.4 Factors Influencing other Governance Practices

7.4.1 Adoption of Cumulative Voting

The next section of the questionnaire focused on the respondents' perceptions regarding the factors that influence companies to adopt other governance practices such as cumulative voting.

The findings in Table 7.15 above elicit that the corporate governance code and government and regulatory bodies are the two main influences on companies to adopt cumulative voting (means of 1.76 and 1.95 respectively). This might be expected since the code has 'voluntarily' suggested cumulative voting as one of its recommended governance practices, and government regulations encourage companies to adopt such practices, as discussed in Chapter Six. This shows that regulations are important to promote corporate governance which is consistent with other literature (Black and Jang, 2006). Respondents agreed that family ownership influenced the adoption of cumulative voting. This might be because family controlled boards try to hamper the adoption of cumulative voting, as it reduces the amount of control family shareholders have over the selection process of board member. When analysing the results through ownership type the respondents from family-and dispersed-owned companies indicated that family ownership influenced the adopting of this governance provision (means of 1.52 and 2.33 respectively). The Kruskal Wallis and Mann Whitney tests indicated that NEDs disagreed that family ownership influenced the adoption of cumulative voting (mean of 3.39), this might be because NEDs are usually large shareholders, and do not want to show they have an influence over AGMs to adopt cumulative voting as it requires AGM approval.

Inspection of Table 7.15 reveals that the respondents have the most differences regarding the influence of top management, CH and CEOs agreed that management influenced the adoption of cumulative voting (means of 2.00 and 1.67 respectively), while all other respondents disagreed; this might be because chairmen and CEOs would like to appear that they are implementing corporate governance practices. When analysing this factor by type of ownership, respondents from foreign controlled companies agreed that management influenced the adoption of cumulative voting, this might be because, as stated in Chapter Six, foreign controlled companies influence their Saudi subsidiaries to adopt international corporate governance practice including cumulative voting, therefore top management are following the foreign owners' decisions, thus it seems that a foreign owner influences the adoption of governance practices as a normative isomorphic process.

The NEDs and CEOs had the most difference of opinion regarding the influence of these factors on adopting accumulative voting, this is expected since each group represents a different perspective as NEDs are mostly large shareholders and CEOs represent management.

Table 7.16 Factor Analysis - Adopting Cumulative Voting

Factors	Sector	Regulations	Ownership	Political influence	Government influence
	1	2	3	4	5
Corporate governance code	-0.161	**0.744**	0.479	-0.043	0.035
Gov and Regulatory bodies	-0.271	**0.689**	**0.563**	-0.160	0.026
Members of the royal family	0.062	-0.288	0.351	**0.642**	-0.166
Islamic values	0.513	-0.093	0.369	0.290	0.081
Personal relationships	0.593	0.043	0.180	-0.011	0.161
Courtesy to others	0.530	-0.277	0.261	0.166	0.320
Position in society	0.333	-0.300	0.349	-0.190	**0.454**
Family ownership	0.403	0.122	**-0.491**	0.022	0.333
Government ownership	0.387	-0.274	**0.525**	-0.072	**-0.577**
Top Management	0.274	0.507	-0.313	0.420	0.253
Company size	0.605	-0.023	-0.098	**-0.535**	0.003
Company sector	**0.733**	0.128	-0.045	-0.339	-0.202
Experience and Qualification of	0.626	0.281	-0.262	0.248	-0.318
BM being on other company	0.481	0.529	0.010	0.133	-0.147
Eigen values	**3.026**	**2.014**	**1.723**	**1.250**	**1.042**
Proportion of variance	**21.611**	**14.382**	**12.309**	**8.931**	**7.440**
Cumulative variance	**21.611**	**35.993**	**48.303**	**57.234**	**64.673**

Note: This table reports the results of Factor analysis. The top part of the table shows the weightings for the variables of each column the factors with high correlation in each column are highlighted in Bold. The bottom part of the table highlights the importance of each column in showing the eigenvalues, the percentage of variance and cumulative percentage. The Kaiser criterion was used to decide on the principal components which should be presented in the results. Kaiser (1960) recommends that principal components with latent roots greater than one should be retained.

The factor analysis reported in Table 7.16 suggests that five factors influence companies when adopting cumulative voting. The first column shows a high loading for the factor 'company sector' indicating its importance, as some sectors have different institutional pressures than others (Scott and Meyer, 1991; Greenwood and Hinings, 1996) leading such companies to adopt cumulative voting. This column is therefore labelled 'sector'.

The second column is labelled as "Regulations" with the corporate governance code and government and regulatory bodies. This may elicit that as a result of regulatory reform, companies are being encouraged to adopt cumulative voting.

The third column shows government and family ownership as important, this concurs with the findings of the interviews that highlight the adoption of governance provisions, in particular cumulative voting, by government controlled boards as they are more likely to follow government laws and recommendations, while there was a low level of adoption by family controlled companies, possibly because family owners fear losing control when cumulative voting is adopting, as discussed in Chapter Six. This accords with the literature that argues that family owned firms are reluctant to adopt cumulative voting (Klapper et al., 2005) and have weaker corporate governance practices (Shleifer and Vishny, 1997; Chhoachharia and Laeven, 2009; Chizema and Kim, 2010).

The final column shows the factors government ownership and position in society with high loadings, this might elicit the influence that derives from government representatives whom also hold highly regarded positions in society and may influence corporate governance practices in their companies. This might also indicate that government officials who represent the government on boards of listed companies, but do not hold a high governmental role, do not influence the adoption of governance practices. Therefore this column is labelled ‘government influence’.

Thus, companies have different approaches in adopting cumulative voting with a different community of practice as a result of the institutional logics embedded within both government owned firms that are more likely to obey laws and regulations, and family owned firms that are more likely to only adopt mandatory regulations or adopt ceremonial compliance. Thus, the type of company ownership seems to be an important element in defining this governance practice and its level of adoption. This confirms the institutional theory view that different levels of conformity to institutional practices emerge depending on the organisational structures and their pre-existing symbolic and material meanings (Friedland and Alford, 1991).

7.4.2 Board Membership

Tables 7.17 and 7.18 show the respondents' perceptions on the factors that influence board members to join company boards and the number of directorships.

The results indicate that 'personal relationships' and 'position in society' are important factors and are in line with the interview findings and the previous literature which indicates the important role that culture has in the Arab world and that board membership is perceived as a highly regarded role in the Saudi society as it give individuals access to the networks that may enhance their personal relationships (Al-Ghathami, 2009; Falgi, 2009).

Table 7.17 Factors Influencing Individuals Joining Boards of Directors

Factors	M	SD	Means					K-W	Mann – Whitney										
									Chairmen &				CEO &			NED &		INED& BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Corporate governance code	3.73	1.01	3.33	3.89	4.21	3.10	3.84	0.01**	0.37	0.17	0.67	0.50	0.62	0.06	0.49	0.00**	0.13	0.01**	2
Government and Regulatory bodies	4.00	0.87	3.00	3.56	4.53	3.50	4.23	0.00**	0.36	0.01**	0.37	0.04*	0.00**	0.90	0.02*	0.00**	0.27	0.00**	6
Economic factors	**2.52**	1.33	2.33	1.78	2.58	2.05	3.03	0.19	0.21	0.80	0.37	0.59	0.29	0.22	0.04*	0.73	0.35	0.06	1
Favouritism	3.43	1.37	3.33	4.11	1.58	4.20	3.87	0.00**	0.27	0.02**	0.17	0.37	0.00**	0.76	0.72	0.00**	0.00**	0.39	4
Personal relationships	**1.76**	0.79	3.33	1.67	1.58	1.60	1.84	0.12	0.03	0.02**	0.01**	0.03*	0.56	0.74	0.79	0.70	0.32	0.47	3
Courtesy to others	2.98	1.41	3.33	3.44	3.28	4.35	1.74	0.00**	0.85	0.88	0.09	0.02*	0.61	0.06	0.00**	0.00**	0.00**	0.00**	5
Position in society	**1.99**	0.96	2.00	1.78	2.74	1.75	1.74	0.03*	0.39	0.30	0.39	0.31	0.05	0.84	0.53	0.01**	0.01**	0.59	2
Family ownership	2.88	1.28	2.00	1.89	4.11	2.65	2.63	0.00**	0.75	0.01**	0.16	0.44	0.00**	0.04	0.14	0.00**	0.00**	0.94	4
Government ownership	3.38	1.21	3.00	4.22	3.95	3.25	2.90	0.01**	0.06	0.13	0.70	0.85	0.71	0.01**	0.01**	0.03*	0.01**	0.30	4
Top Management	3.74	1.23	3.67	3.67	2.78	4.00	4.16	0.05	0.92	0.50	0.39	0.27	0.27	0.23	0.09	0.03*	0.01**	0.90	2
Company size	4.12	0.97	3.00	4.00	4.53	4.15	4.00	0.20	0.25	0.12	0.25	0.25	0.10	0.39	0.84	0.22	0.06	0.45	0
Company sector	3.21	1.38	2.00	3.67	4.53	2.05	3.13	0.00**	0.05	0.00**	0.96	0.20	0.02*	0.00**	0.33	0.00**	0.00**	0.01**	6
Experience of BM	3.73	1.32	1.67	2.00	3.68	4.15	4.19	0.00**	0.33	0.10	0.00**	0.01**	0.03*	0.00**	0.00**	0.83	0.81	0.48	5
Qualification of BM	3.83	1.12	1.67	2.67	4.11	3.85	4.19	0.00**	0.21	0.00**	0.01**	0.01**	0.01**	0.02*	0.00**	0.41	0.58	0.10	6
Insider dealing by BM	**2.65**	1.22	4.33	1.78	1.63	2.40	3.52	0.00**	0.01**	0.00**	0.01**	0.20	0.55	0.06	0.00**	0.00**	0.00**	0.00**	6
									1	7	4	5	6	4	7	10	8	5	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

Table 7.18 Factors Influencing Number of Directorships

Factors	M	SD	Means					K-W P value	Mann – Whitney										
									Chairmen &				CEO &			NED &		INED& BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Corporate	2.48	1.16	1.67	1.22	3.05	2.05	2.84	**0.00**	0.18	0.08	0.15	0.07	0.00**	0.00**	0.00**	0.01**	0.76	0.00**	5
Gov and	4.22	0.89	2.67	4.11	4.53	4.30	4.16	0.12	0.10	0.01**	0.04*	0.04*	0.16	0.52	0.60	0.38	0.27	0.85	3
Economic	2.66	1.44	2.67	2.22	3.11	1.60	3.19	**0.00**	0.57	0.56	0.15	0.49	0.19	0.07	0.09	0.00**	0.88	0.00**	2
Favouritism	4.11	0.78	4.00	4.11	4.11	4.20	4.07	0.98	0.79	0.80	0.62	0.87	0.98	0.76	0.89	0.76	0.84	0.55	0
Personal	**1.80**	0.79	4.00	1.78	1.58	1.85	1.77	**0.06**	0.01**	0.01**	0.01**	0.02*	0.30	0.79	0.61	0.15	0.46	0.38	4
Courtesy to	2.69	1.42	4.00	4.11	1.58	4.20	1.87	**0.00**	0.79	0.01**	0.62	0.02*	0.00**	0.76	0.00**	0.00**	0.26	0.00**	6
Position in	**1.81**	0.80	3.50	1.78	1.58	1.95	1.77	**0.07**	0.01**	0.02*	0.03*	0.02*	0.30	0.58	0.61	0.12	0.46	0.27	4
Family	3.09	1.26	2.50	4.11	3.28	3.25	2.59	**0.02**	0.05	0.35	0.37	1.00	0.05	0.05	0.00**	0.94	0.09	0.08	1
Government	3.23	1.26	3.00	4.11	2.74	3.70	2.97	**0.02**	0.08	0.80	0.29	0.87	0.01**	0.38	0.02*	0.02*	0.62	0.05	3
Top	4.18	0.76	4.00	4.11	4.21	4.25	4.13	0.96	0.79	0.61	0.54	0.74	0.73	0.63	0.93	0.87	0.73	0.59	0
Company size	3.99	1.06	2.00	4.11	3.95	4.15	4.00	0.21	0.03	0.05	0.02*	0.03*	0.92	0.58	0.93	0.53	0.97	0.47	2
Company sector	2.74	1.39	2.00	3.33	2.78	1.80	3.24	**0.01**	0.19	0.79	0.49	0.21	0.31	0.00**	0.89	0.23	0.29	0.00**	2
Experience of	4.19	0.93	2.00	3.22	4.53	4.40	4.27	**0.01**	0.22	0.01**	0.01**	0.02*	0.01**	0.02*	0.03*	0.43	0.36	0.86	6
Qualification of	4.34	0.76	2.00	4.56	4.53	4.40	4.27	**0.08**	0.02*	0.01**	0.01**	0.02*	0.89	0.44	0.40	0.43	0.36	0.86	4
Insider dealing	3.54	1.28	4.00	4.22	3.68	3.10	3.50	**0.07**	0.30	0.61	0.15	0.56	0.61	0.01	0.04*	0.09	0.22	0.14	1
									3	6	6	7	4	3	6	4	0	4	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

The respondents also agreed that economic factors such as the financial compensation and other benefits influenced both the desire of an individual to become a board member and the number of directorships. The results also show that the corporate governance code influences the number of directorships, since the code states a maximum of five directorships in listed companies that an individual may hold.[72] Thus, a voluntary provision of the code appears to have become institutionalised reflecting one community of practice.

Table 7.17 also shows the most important factor to influence board members to join company boards was experience and qualifications (mean of 1.67), while CEOs, NEDs and INEDs indicated that personal relationships were most important (means of 1.67, 1.58 and 1.60 respectively), and BS thought it was the position in society reflecting the importance of network of actors. NEDs disagreed that family ownership influenced individuals becoming board members (mean 4.11) while all other groups agreed. A possible interpretation of the difference opinion of NEDs to the other groups might be that NEDs are usually family members or represent large shareholders and may not want to indicate their influence on individuals becoming board members.

The respondents indicated that insider dealing made individuals become board members; as highlighted in Chapter Six, board members may gain access to information that can be used to trade in the stock market despite the regulatory body CMA sanctioning those charged with insider trading. However, the results may suggest that board members may still be involved in such practices. The results of the Mann-Whiney tests in Table 7.17 show that the respondents had the most different views regarding this factor. CEOs, NEDs and INEDs agreed that individuals join boards to gain inside information (means

[72] This provision is voluntary in the Saudi corporate governance code.

of 1.75, 1.63 and 2.40 respectively), whereas CH and BS disagreed (means of 4.33 and 3.52 respectively). These different perceptions might be attributed to board members experience within companies that they serve on, and that unethical activity such as insider trading is practiced within some companies, but not all. When looking at the respondents opinions by ownership type, respondents from dispersed owned companies agreed that insider dealing was a motive to gain board directorship (mean 2.42), while those from family boards were neutral and those classified as other disagreed (means of 2.88 and 3.25 respectively).

After analysing the results by sector, the respondent from non-financial sectors agreed that insider trading influenced individuals in becoming board members (mean 2.58) while the respondents from the financial sector had neutral views (mean 2.94) which might be due to the amount of regulations and monitoring on the financial sector from the financial regulatory authority (SAMA). These findings suggests that insider trading is more likely to be in sectors other than the financial sector, as within such companies the absence of an ineffective monitoring system gives self-interested board members an opportunity to conduct unethical board behaviour.

The results of Kruskal Wallis and Mann-Whitney revealed that groups had different perceptions regarding the factors that influenced the number of directorships an individual may hold. Most groups agreed that the corporate governance code influenced the number of directorships although NEDs had more neutral views, this might be because the restriction of the number of directorships to five is stated in the Saudi corporate governance code as a voluntary aspect, therefore it might be that not all NEDs adhere to this practice.

The respondents seemed to have different views regarding the influence of courtesy to others on the number of directorships. NEDs and BS perceived that this factor had an influence (means of 1.58 and 1.87 respectively) while all other groups disagreed. An explanation of this finding may lie in the interviews where some of the NEDs indicated that they may be reluctant to gain board membership in another company, due to them being busy, but might agree to accept out of courtesy to those who have invited them onto the board. The groups had different views regarding the influence of family and government ownership on the number of directorships. CH and BS agreed that family ownership influenced the number of directorships, while groups CEOs, NEDs and INEDs disagreed. NEDs agreed that government ownership influenced the number of directorships while INEDs and CEOs disagreed. After analysing the responses by ownership type, the respondents from family owned companies and foreign owned companies agreed that family ownership influenced the number of directorships, while respondents from government and dispersed owned companies disagreed. The difference in the groups opinions regarding the influence of family and government ownership might be because of the type of company ownership the respondents represented.

The factor analysis reported in Table 7.19 suggests that six factors are important when individuals join company boards. The first column shows a high loading for government and regulatory bodies which is in line with the recommendations of regulatory body CMA in the corporate governance code that recommends the maximum number of directorships a person may hold.

Table 7.19 Factor Analysis – Why Individuals Join Boards of Directors

Factors	1 Government regulations	2 Cultural influenc e	3 Personal relationship Vs the code	4 Courtesy to others vs the code	5 Economic influence	6 Political influence
Corporate governance code	0.202	-0.176	**-0.667**	-0.342	-0.025	0.008
Government and Regulatory bodies	**0.785**	0.232	0.075	-0.002	-0.012	0.267
Economic factors	0.347	0.239	0.429	-0.142	**-0.486**	-0.013
Favouritism	-0.398	**0.599**	0.072	0.227	0.147	0.278
Personal relationships	-0.265	-0.263	**0.559**	-0.216	**0.527**	0.252
Courtesy to others	-0.263	-0.383	0.335	**0.629**	-0.089	-0.179
Position in society	0.268	**0.626**	0.052	-0.116	0.313	**0.458**
Family ownership	0.610	-0.257	0.395	-0.093	0.184	-0.316
Government ownership	0.029	-0.242	-0.245	0.515	-0.087	**0.566**
Top Management	-0.202	0.576	-0.066	0.285	0.311	-0.136
Company size	0.480	0.121	-0.325	0.443	0.394	-0.223
Company sector	0.588	-0.263	-0.092	0.133	0.336	-0.230
Experience of BM	0.487	0.553	0.268	0.204	0.021	0.103
Qualification of BM	0.607	0.410	0.000	-0.047	-0.119	0.237
Insider dealing by board members	-0.228	0.593	-0.044	-0.380	0.425	0.010
Eigenvalues	**2.80**	**2.47**	**1.48**	**1.40**	**1.24**	**1.06**
Percentage of Variance	**18.63**	**16.50**	**9.83**	**9.34**	**8.29**	**7.08**
Cumulative Percentage	**18.63**	**35.13**	**44.96**	**54.30**	**62.59**	**69.67**

Note: This table reports the results of Factor analysis. The top part of the table shows the weightings for the variables of each column the factors with high correlation in each column are highlighted in Bold. The bottom part of the table highlights the importance of each column in showing the eigenvalues, the percentage of variance and cumulative percentage. The Kaiser criterion was used to decide on the principal components which should be presented in the results. Kaiser (1960) recommends that principal components with latent roots greater than one should be retained.

The second column is labelled 'cultural influence' as it shows position in society and favouritism with high loadings. This indicates that cultural factors and networks are important for individuals in obtaining board positions. This finding is consistent with the interview findings and previous studies that indicate that board membership is considered a highly regarded role in Saudi society (Falgi, 2009).

The third and fourth columns show a high loading for the factors personal relationships and courtesy to others respectively. However, in each column, there is a contrast between these two factors with the corporate governance code, this might be because, as discussed previously in Tables 7.4 and 7.5, that social and cultural factors play an influential role on individuals selection process; these social and cultural criteria contradict with the core objectives of corporate governance and decouple practice from policy as the material carrier. Thus, board members are gaining board directorships because of their social networks and relationships.

The final column shows high loadings for the factors government ownership and position in society. As discussed previously, the position an individual holds whether in the government office or in other roles in society (i.e. highly regarded people in society and influential business men) are means to attract other individuals to join a board with people of such calibre.

Table 7.20 Factor Analyses -Influences on the Number of Directorships

Factors	1 Personal traits	2 Family Ownership	3 Government Ownership	4 CG code	5 Sector
Corporate governance code	0.289	-0.287	-0.019	**0.659**	0.285
Government and Regulatory bodies	0.604	0.316	0.047	0.111	0.371
Economic factors	0.223	-0.623	0.466	0.184	-0.127
Favouritism	0.420	0.313	0.444	-0.297	0.006
Personal relationships	-0.658	0.394	0.291	0.440	0.121
Courtesy to others	-0.538	0.534	0.332	-0.303	0.188
Position in society	-0.623	0.419	0.301	0.445	0.109
Family ownership	0.021	**0.710**	-0.503	-0.142	0.069
Government ownership	-0.151	-0.220	**0.764**	-0.272	0.088
Top Management	0.432	0.437	0.353	0.275	-0.253
Company size	0.403	0.292	0.369	0.091	-0.485
Company sector	0.249	0.282	-0.194	0.290	**-0.695**
Experience of BM	**0.709**	0.152	0.114	0.174	0.374
Qualification of BM	**0.747**	0.207	-0.006	-0.084	0.307
Insider dealing by board members	0.242	0.084	0.165	-0.399	-0.154
Eigenvalues	**3.337**	**2.268**	**1.877**	**1.511**	**1.350**
Percentage of Variance	**22.246**	**15.119**	**12.513**	**10.072**	**8.998**
Cumulative Percentage	**22.246**	**37.365**	**49.878**	**59.951**	**68.948**

Note: This table reports the results of Factor analysis. The top part of the table shows the weightings for the variables of each column the factors with high correlation in each column are highlighted in Bold. The bottom part of the table highlights the importance of each column in showing the eigenvalues, the percentage of variance and cumulative percentage. The Kaiser criterion was used to decide on the principal components which should be presented in the results. Kaiser (1960) recommends that principal components with latent roots greater than one should be retained.

The factor analysis reported in Table 7.20 reveals five important factors influencing the number of directorships. The first column shows a high loading for the factors experience and qualifications, suggesting that individuals gain more directorships in order to develop their personal traits, this is consistent with the previous literature (Burke, 1997).

The second column shows family ownership as important and the third column shows government ownership as important, these two columns might be explained, as discussed previously, that board membership is influenced by ownership. The fourth column shows a high loading for the corporate governance code; as the code restricts the number of directorships to five. Thus, regulations seem to influence the number of directorships individuals may hold. The final column shows sector with a high negative loading, this might be because some sectors might be more favoured by board members to join. This is in line with the findings in Chapter Six that indicated individuals favoured gaining board membership in companies within the financial sector. This is also consistent with previous studies that found that the type of sector might be a motive behind individuals in joining a board within that sector (Burke, 2000). This column is therefore labelled as ‘sector’.

7.5 Factors influencing Board of Directors Roles and Decisions

7.5.1 Board of Directors Practices

This final section of the questionnaire consisted of questions aimed to elicit the respondents’ opinions on the factors that influence boards of directors in their Practices and decisions, the time of board meetings and the time spent by board members in preparation for meetings. The respondents were asked to assess whether they agreed that their board carried out the role of ensuring no conflicts of interest occurred within company boards and respondents agreed that their boards carried out this role with a mean of 1.63. Table 7.21 shows the analysis of the respondents’ answers to whether a set of factors either assisted or hindered boards of directors’ role in ensuring no conflicts of interest occurred at board level.

Table 7.21 Factor Influencing Board of Directors’ Practices

Factors	M	SD	Group -Means					K-W	M- W										
									Chairmen &				CEO &			NED &		INED &BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Corporate governance code	1.91	0.76	2.67	1.67	2.83	1.75	1.48	0.00**	0.03*	0.36	0.04*	0.01**	0.00**	0.81	0.34	0.00**	0.00**	0.15	6
Government and Regulatory bodies	2.11	0.85	3.00	1.78	3.16	1.85	1.65	0.00**	0.00**	0.57	0.01**	0.01**	0.00**	0.79	0.43	0.00**	0.00**	0.22	6
Members of the royal family	3.02	0.59	3.00	3.11	2.84	3.05	3.10	0.67	1.00	0.67	0.81	0.74	0.54	0.83	0.72	0.26	0.15	0.87	0
Economic Factors	3.06	0.51	3.00	3.38	2.89	3.00	3.13	0.11	0.36	0.55	0.81	0.65	0.03*	0.10	0.16	0.62	0.04*	0.21	2
Favouritism	3.91	0.89	3.00	4.00	2.79	4.25	4.45	0.00**	0.04*	0.56	0.00**	0.00**	0.00**	0.34	0.08	0.00**	0.00**	0.20	6
Personal relationships	3.83	0.85	3.00	4.22	2.78	4.00	4.29	0.00**	0.00**	0.46	0.01**	0.01**	0.00**	0.39	0.64	0.00**	0.00**	0.13	6
Courtesy to others	3.70	0.68	3.67	3.44	3.95	4.10	3.37	0.00**	0.46	0.39	0.32	0.30	0.03*	0.03*	0.89	0.44	0.00**	0.00**	4
Position in society	2.73	0.98	3.67	2.56	1.37	3.50	3.03	0.00**	0.03*	0.00**	0.75	0.01**	0.00**	0.00**	0.01**	0.00**	0.00**	0.00**	9
Family ownership	2.38	0.94	2.33	3.11	2.00	2.40	2.39	0.07	0.29	0.43	0.96	1.00	0.00**	0.12	0.05	0.19	0.05	0.98	1
Government ownership	2.63	0.78	1.67	2.78	3.00	2.70	2.42	0.09	0.08	0.02*	0.08	0.19	0.34	0.79	0.38	0.19	0.04*	0.40	2
Top Management	2.52	0.67	1.33	2.78	2.74	2.80	2.26	0.00**	0.01**	0.00**	0.00**	0.03*	0.82	0.59	0.02**	0.37	0.01**	0.00**	7
Company size	3.01	0.48	3.00	2.67	3.21	2.90	3.06	0.03*	0.39	0.39	0.82	0.76	0.02**	0.30	0.01**	0.06	0.05	0.30	2
Company sector	2.98	0.65	2.33	2.78	3.00	3.05	3.03	0.07	0.11	0.06	0.02*	0.00**	0.39	0.29	0.23	0.98	0.83	0.84	2
Experience of BM	1.79	0.60	2.00	1.67	1.89	1.65	1.84	0.64	0.27	0.60	0.26	0.58	0.48	0.87	0.45	0.31	0.96	0.26	0
Qualification of BM	1.85	0.70	3.33	1.67	1.68	1.65	2.00	0.02*	0.03**	0.02*	0.02**	0.01*	0.81	0.87	0.07	0.89	0.06	0.02*	5
BM being on other company boards	3.09	0.91	3.00	2.22	3.00	3.25	3.29	0.02*	0.12	1.00	0.29	0.50	0.00**	0.01**	0.01**	0.05	0.17	0.83	3
									7	4	7	8	10	3	4	5	9	4	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups’ responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1= strongly contributes, 2= contributes, 3= neutral, 4= prevents, 5= strongly prevents. A */** indicates significance at the 5%/1% level respectively.

The results in the table above show that experience and qualification of board members, the corporate governance code and government and regulatory bodies (means of 1.79, 1.85 1.90, 2.11 respectively) were important in board practices. The respondents also indicated that favouritism; courtesy to others and; position in society affected the board in carrying out this role. This finding is consistent with Liew (2007) who concluded that cultural influenced governance practices in Malaysian companies. Thus, it seems that cultural factors can be an obstacle to improve corporate governance practices at board level in Saudi listed companies.

The Kruskal Wallis and Mann-Whitney tests shows that the respondents disagreed on the influence of government and regulatory bodies; CEOs, INEDs and BS thought that government and regulatory bodies contributed to the role of boards in ensuring no conflicts of interest occurred (means of 1.78, 1.85 and 1.65 respectively), NEDs indicated that government and regulatory bodies prevented boards from ensuring no conflict occurs (mean 3.16), this might be because as stated in the interview chapter, government representatives on boards lack the relevant experience and qualifications, and that NEDs are more aware of this than other groups, because such government representatives are present on their boards.

Although favouritism and personal relationships prevented the board in ensuring no conflict of interest, the NEDs thought that they contributed in the prevention of conflicts of interest. This might be because NEDs are usually controlling shareholders and, as discussed in the interview chapter, bring individuals onto the board that they trust from their same personal networks and assume their loyalty which is based on their personal relationships with them and look out for their interests.

Inspection of the table above reveals that respondents had the most different opinions regarding the influence of position in society. Group BS had mixed views (mean 3.03), while NEDs and CEOs indicated that "position in society" contributes in ensuring no conflicts of interest occur (means of 1.37 and 2.56 respectively). This might be because, for example, being from the royal family or an ex-minister might help the board when dealing with dilemmas that are out of the boards reach to solve. While CH and INEDs indicated that position in society prevented the board from ensuring no conflicts of interest occur (means of 3.67 and 3.50 respectively), possibly because social status may result in them taking advantage of their social influence and imposing on to the board their decisions which other board members might disagree with but are not capable to do so in practice.

INEDs had mixed views regarding the influence of top management, while the other groups indicated that top management is a factor that contributes in ensuring no conflicts of interest occur. The reason why INEDs had mixed views might be because they are on different boards and that management within some companies may not provide the board with timely or complete information. Further examination of the respondents sector and type of ownership did not indicate any differences in the respondents' opinions, this might be an avenue for future research.

The results in the table above also show that the views of NEDs and BSs were most different and also the views of CEOs and NEDs, this might be because of the role of each group on the board; NEDs are usually more involved in board decisions as they take part in carrying out boards roles and responsibilities, whereas CEOs and BSs represent management. The next section will discuss the factors influencing board decisions.

Table 7.22 Factors Influencing Board Decisions

Factors	M	SD	Group Means					K-W	M-W										
									CH &				CEO &			NED&		INED & BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Gov and Regulatory bodies	3.39	1.39	2.00	3.56	3.50	3.11	3.53	0.62	0.05	0.18	0.43	0.17	0.71	0.66	0.63	0.61	0.80	0.41	1
Economic Factors	1.90	0.91	2.50	1.67	1.50	2.45	1.80	0.01**	0.16	0.07	0.86	0.14	0.54	0.05	0.84	0.00**	0.28	0.01**	2
Members of the royal family	4.18	0.99	4.50	4.22	4.17	3.90	4.32	0.77	0.79	0.89	0.50	0.77	0.86	0.48	0.97	0.31	0.79	0.25	0
Islamic values	3.66	1.02	4.00	4.11	3.50	3.70	3.58	0.70	0.90	0.56	0.72	0.66	0.22	0.30	0.18	0.67	0.88	0.76	0
Favouritism	3.04	1.12	4.00	3.11	2.39	2.80	3.48	0.01**	0.13	0.04*	0.22	0.42	0.06	0.59	0.25	0.33	0.00**	0.08	2
Personal relationships	2.15	0.80	2.50	2.33	2.00	2.15	2.16	0.75	0.89	0.89	0.94	0.87	0.16	0.33	0.61	0.31	0.37	0.84	0
Courtesy to others	2.40	0.96	3.50	2.67	2.06	2.40	2.45	0.39	0.41	0.14	0.32	0.41	0.09	0.56	0.65	0.14	0.16	0.88	0
Position in society	2.36	1.01	3.50	3.44	2.00	2.35	2.19	0.00**	1.00	0.14	0.35	0.29	0.00**	0.02	0.00**	0.60	0.30	0.97	2
Family ownership	2.41	1.22	3.00	3.00	2.33	2.35	2.29	0.61	0.90	0.94	0.77	0.72	0.15	0.20	0.12	0.70	0.59	0.87	0
Government ownership	3.30	1.44	3.50	3.11	3.00	3.25	3.57	0.52	0.69	0.79	1.00	0.65	0.87	0.69	0.23	0.54	0.12	0.31	0
Top Management	3.61	1.33	2.00	3.56	3.44	3.60	3.84	0.35	0.14	0.17	0.11	0.08	0.94	0.96	0.42	0.98	0.30	0.31	0
Company size	1.80	0.72	2.00	1.67	1.61	2.25	1.65	0.08	0.36	0.29	0.79	0.36	0.78	0.09	0.79	0.02*	0.98	0.01	1
Company sector	1.83	0.74	2.00	1.67	1.61	2.35	1.65	0.03*	0.36	0.29	0.62	0.36	0.78	0.05	0.79	0.01**	0.98	0.01	1
Insider dealing by BM	3.90	1.06	4.50	4.11	3.78	4.00	3.81	0.89	0.61	0.50	0.39	0.35	0.76	0.73	0.51	0.88	0.74	0.76	0
Experience of the chairmen	2.55	1.26	2.00	3.56	2.11	2.60	2.52	0.09	0.09	0.89	0.63	0.59	0.01**	0.06	0.03*	0.26	0.28	0.92	2
									0	1	0	0	2	0	2	3	1	2	

Note: This table shows the means and group means for the respondents. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

7.5.2 Factors Influencing Board Decisions

This next question elicited the respondents' opinions on the factors that they thought influenced board decisions. The table above shows that the respondents strongly agreed that company size and sector influences board decisions (means of 1.80 and 1.83 respectively). The respondents also agreed that cultural factors such as personal relationships, position in society and courtesy to others also influenced board decisions (means of 2.15, 2.36 and 2.40 respectively); the evidence in Chapter Six also suggested that cultural factors influenced board members decisions as they might feel obligated to vote or agree with the decisions due to personal networks with those who appointed them. However, CH disagreed that position in society and courtesy to others influenced the decision making process at board level (means of 3.50), one possible interpretation is that chairmen are usually those who have the highest social status and are given more regard and courtesy from NEDs and INEDs on the board and influence NEDs and INEDs to agree with them.

Family ownership also seemed to influence board decisions, this is expected since as noted in Figure 2.2 a large number of KSA listed companies are controlled by family ownership, and accords with the literature that states that family and founders influence company decisions (Robertson, 2013). When analysing the respondents by ownership type, those from family -dispersed and foreign- controlled boards agreed with the influence of family ownership on board decisions (1.46, 2.78 and 2.44 respectively), while those classified as 'other' disagreed (mean 3.25). Also the respondents from government controlled boards agreed that government ownership was an important factor to influence board decisions (mean 1.57) while the respondents from family -dispersed and foreign- controlled companies disagreed (means of 4.15, 4.11 and 3.87 respectively).

Thus it seems clear that controlling shareholders have an influence on board decisions. Surprisingly the respondents did not indicate that Islamic values influenced board decisions, it might be expected that Islam and Shariah law would be an important influence in decision making in an Islamic country and is possibly an avenue for future research.

7.5.3 Factors influencing board Meeting

This section draws out the respondents' opinions regarding the factors influencing when board meetings take place. From the results in Table 7.23 the respondents indicated only the experience of the chairmen was influential with a mean of 2.61 and might be because, as discussed in Chapter Six, the time of board meetings and agenda items are usually one of the roles of the chairmen.

Table 7.23 Factors Influencing Time of Board Meetings

Factors	M	SD	Group M					KW	M-W P VALUE										
									CH &				CEO &			NED &		INED & BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Gov and Regulatory bodies	3.69	1.28	4.00	3.50	3.82	3.89	3.52	0.66	0.36	0.61	0.76	0.71	0.21	0.25	0.77	0.89	0.35	0.30	0
Economic Factors	3.20	1.21	3.33	2.25	3.88	4.15	2.45	0.00**	0.02*	0.20	0.34	0.33	0.00**	0.37	0.01**	0.01**	0.53	0.04*	5
Members of the royal family	4.15	0.76	5.00	3.50	4.18	4.05	4.32	0.03*	0.03*	0.15	0.08	0.13	0.05	0.06	0.00**	0.67	0.59	0.26	2
Islamic values	3.00	1.04	3.00	2.67	2.61	4.25	2.52	0.00**	0.30	0.26	0.04*	0.17	0.91	0.00**	0.81	0.00**	0.63	0.00**	4
Favouritism	4.28	0.69	4.00	4.11	4.44	4.10	4.35	0.50	0.79	0.26	0.81	0.36	0.27	0.98	0.38	0.17	0.67	0.25	0
Personal relationships	3.94	0.75	4.50	4.22	4.28	4.15	3.48	0.00**	0.60	0.67	0.54	0.06	0.82	0.84	0.01**	0.61	0.00**	0.00**	3
Courtesy to others	4.09	0.68	4.50	4.44	3.56	4.20	4.20	0.00**	0.89	0.08	0.62	0.46	0.00**	0.47	0.25	0.01**	0.00**	0.86	3
Position in society	3.96	1.06	4.50	2.78	4.44	4.25	3.81	0.01**	0.09	0.94	0.71	0.42	0.00**	0.00**	0.03*	0.49	0.07	0.21	3
Family ownership	3.10	1.27	5.00	2.33	3.44	3.35	2.84	0.03*	0.01**	0.08	0.10	0.03*	0.03*	0.06	0.23	0.88	0.11	0.17	2
Government ownership	3.53	1.02	4.00	2.89	4.06	3.65	3.29	0.03*	0.19	0.95	0.68	0.38	0.03*	0.11	0.18	0.21	0.00**	0.17	2
Top Management	3.81	1.06	4.00	3.67	3.61	3.15	4.39	0.00**	0.69	0.64	0.34	0.62	0.81	0.23	0.00**	0.23	0.05	0.00**	2
Company size	3.88	0.89	4.00	4.33	3.94	3.35	4.03	0.10	0.69	0.95	0.48	0.97	0.17	0.02*	0.29	0.10	0.69	0.03*	2
Company sector	3.09	0.94	4.00	3.56	2.56	2.95	3.29	0.02*	0.60	0.06	0.21	0.38	0.00**	0.09	0.42	0.36	0.01**	0.20	2
Insider dealing by BM	3.80	1.02	4.50	3.56	4.28	2.60	4.32	0.00**	0.10	0.61	0.02*	0.74	0.03*	0.01**	0.02**	0.00**	0.73	0.00**	6
Experience of the chairmen	2.61	0.96	2.00	2.78	2.83	2.50	2.55	0.56	0.37	0.21	0.60	0.23	0.69	0.55	0.97	0.21	0.45	0.36	0
									3	0	2	1	7	4	6	4	4	6	

Note: This table shows the means and group means for the respondents. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

From the table above, the Kruskal Wallis and Mann-Whitney results indicate that company executives (CEOs and BS) agreed that economic factors influenced the time of board meetings (means of 2.25 and 2.45 respectively), this might be influenced by the time the empirical data of this study was carried out which was between 2009 and 2011 after the global financial crisis, which might have made board meetings longer in time and more frequent. CH, NEDs and INEDs disagreed with the economic influence (means of 3.33, 3.88 and 4.15 respectively). CEOs, NEDs and BSs seemed to agree that Islamic values influenced the time of board meetings, one possible interpretation of this result might be that Muslims are required to pray at certain times five times a day,[73] therefore it might be that board meetings take place at times that do not overlap with the times of prayer. The executives (CEOs and BS) also indicated that family ownership influenced the time of board meetings, which might be expected since family ownership has been shown to influence many governance practices and board decisions. NEDs indicated that company sector influences the time of board meetings; this might be because NEDs usually have multiple board memberships, and some sectors board meetings are made at certain times in order not to overlap with other board meetings that they may have to attend.

7.5.4 Factors Influencing the Time Spent Preparing for Board Meetings

The final section of the questionnaire aimed to find out which factors influenced the time that individual board members spent in preparation for board meetings, demonstrating their commitment reflecting governance practice (Minichilli, 2009).

[73] At dawn, noon, afternoon, sunset and at night.

Table 7.24 Factors Influencing Time Board Members Prepare for Board Meetings

Factors	M	SD	Group M					KW	M-W										
									CH &				CEO &			NED &		INED & BS	
			CH	CEO	NED	INED	BS		CEO	NED	INED	BS	NED	INED	BS	INED	BS		
Gov and Regulatory bodies	3.62	1.26	4.00	3.56	3.67	3.68	3.53	0.96	0.48	1.00	1.00	0.93	0.47	0.49	0.63	0.87	0.89	0.72	0
Economic Factors	2.34	1.02	4.00	2.22	1.94	2.95	2.10	0.00**	0.01**	0.02*	0.15	0.03*	0.31	0.06	0.43	0.00**	0.83	0.01**	5
Members of the royal family	3.94	0.80	5.00	3.56	3.78	3.90	4.10	0.11	0.02*	0.06	0.07	0.11	0.58	0.23	0.06	0.56	0.18	0.45	1
Islamic values	3.56	1.05	3.00	3.33	2.78	3.60	4.10	0.00**	0.81	0.50	0.39	0.07	0.23	0.52	0.07	0.01**	0.00**	0.07	2
Favouritism	4.18	0.82	4.00	4.11	3.89	4.65	4.06	0.03*	0.76	1.00	0.07	0.87	0.67	0.02*	0.92	0.01**	0.63	0.01**	3
Personal relationships	4.04	0.83	5.00	3.44	4.00	4.05	4.16	0.09	0.04*	0.08	0.14	0.12	0.07	0.09	0.02*	0.90	0.56	0.67	2
Courtesy to others	3.89	0.84	5.00	4.33	3.61	3.85	3.87	0.07	0.10	0.03*	0.07	0.07	0.02*	0.19	0.11	0.27	0.34	0.80	2
Position in society	4.09	0.90	5.00	4.11	3.89	4.05	4.16	0.49	0.13	0.08	0.11	0.16	0.64	0.94	0.82	0.53	0.36	0.81	0
Family ownership	3.44	1.15	5.00	2.63	3.17	3.00	3.97	0.00**	0.02*	0.03*	0.05	0.11	0.18	0.63	0.00**	0.60	0.01**	0.01**	5
Government ownership	3.59	1.05	3.00	2.56	3.33	3.50	4.13	0.00**	0.26	0.50	0.48	0.07	0.03*	0.04	0.00**	0.55	0.01**	0.07	3
Top Management	3.73	0.80	3.00	3.00	3.75	3.60	4.06	0.00**	1.00	0.17	0.24	0.08	0.01**	0.02*	0.00**	0.53	0.21	0.05	3
Company size	2.04	0.80	2.00	2.11	1.72	2.45	1.94	0.10	0.64	0.38	0.54	0.87	0.05	0.40	0.47	0.02*	0.24	0.08	1
Company sector	2.26	0.88	2.00	2.67	2.06	2.55	2.10	0.26	0.27	0.89	0.45	0.81	0.09	0.72	0.12	0.12	0.63	0.15	0
Insider dealing by BM	4.05	0.73	4.00	4.44	4.06	3.95	4.00	0.54	0.26	0.89	0.90	1.00	0.18	0.07	0.15	0.64	0.82	0.83	0
Experience of the chairmen	3.89	0.83	2.00	4.44	4.06	3.50	4.00	0.00**	0.02*	0.02	0.01**	0.01	0.18	0.00**	0.15	0.02*	0.82	0.03*	5
									5	3	1	1	3	3	4	5	3	4	

Note: This table shows the means and group means for the respondents. R= factors ranks in the order of importance. The results of the Kruskal Wallis test (K-W) shows significant differences across the groups' responses. Mann-Whitney p values indicate the difference between the responses of total groups, the final row and column show the number of significant differences. Responses are based on a five point Likert scale where 1 = strongly agree, 2= agree. 3= neutral, 4= disagree, 5= strongly disagree. A */** indicates significance at the 5%/1% level respectively.

The results in Table 7.24 indicate that company size and sector influence the time board members allocate to prepare for board meetings, possibly as companies that are larger in size and more complex might have more information that needs to be read, such as firms in the financial sector, that would require more effort and time (Vafeas, 1999).

The respondents also indicated that economic factors influenced the time board members devoted in preparation for board meetings; one possible interpretation is that after the global financial crisis board members became more involved and alert in board meetings.

The result of Kruskal Wallis and Mann- Whitney test shows some significant differences among the responses of the groups. CH indicated that their experience as chairmen influenced the preparation spent by other board members, consistent with the literature (Roberts, 2002). Thus chairmen think themselves more influential than may actually be true in practice.

7.6 Conclusion

This chapter reports the results of the questionnaire survey regarding the factors that influence corporate governance practices in general and board practices in particular. The overall findings signify that social, cultural and regulatory factors influence corporate governance practices

The views of the groups respondents varied regarding the influence of some of the factors on corporate governance practices; the respondents that had the most similarities were the chairmen and NEDs which might be because chairmen are usually also NEDs within other companies, and hence network together and the most differences were between CEOs and NEDs which might be because CEOs represent the views of executives from a day to day basis, while NEDs are less involved and more distant and have different networks and social circles.

The findings, as summarised in Table 7.25, point to the importance of the regulatory role of government bodies in all of the governance issues discussed in the questionnaire which seems to be the result of coercive pressures that promote and diffuse corporate governance practices among KSA listed companies, consistent with previous studies in emerging countries (Falgi, 2009; Zagoub, 2011; Black and Jang, 2006). The issuance of the corporate governance code and other regulatory enforcements have led companies to adopt analogous governance practices (DiMaggio and Powell, 1983). However, the level of similarity in conformity does not exceed the mandatory provisions of the code, as the evidence suggests that there are variations in the level of adoption of the voluntary provisions of the code. Indeed, the analysis reveals that government owned companies adopt the voluntary provisions as a community of practice possibly because the prevailing institutional logics embedded within these government boards is to adhere to government regulations, but companies controlled by foreign ownership have practices resulting from the influence of the foreign controlling shareholder. Family owned firms also show their own community of practice by being selective about the voluntary aspects of the code. Thus, KSA organisations have responded to external institutional pressure according to the prevailing logics within their community (Lepoutre and Valente, 2012; Helms et al., 2012).

The findings also show that there are communities of practice in different sectors. The financial sector's practices maybe a result of the coercive influence of the financial regulator (SAMA) with more governance provisions being adopted (Scott and Myers, 1991; Greenwood and Hinings, 1996).

Finally, the findings indicate that cultural and social factors and personal networks are important drivers in influencing corporate governance practices, but many practices are decoupled from policy as material carriers. Having now discussed the two empirical results, the thesis will now focus on the conclusions that can be drawn from this study.

Table 7.25 The Factors Influencing Governance Practices

Governance practice	Cultural influences	Social status	Ownership	Political influences	Government and Regulatory bodies	Corporate governance code	Personal traits	Sector	Economic
Selection of :									
Chairmen	√	√	√	√	-	-	√	-	-
NED	√	√	-	-	√	-	√	√	-
Independent NED	√	√	√	-	√	√	√	-	-
Audit committee members	√	-	-	-	√	√	√	√	-
Remuneration and nomination committee members	√	-	√	-	-	√	√	√	-
Executive committee members	-	-	√	-	-	-	y	-	-
Factors contribute to the practices of audit committee	-	-	-	-	√	√	√	-	-

Factors hindering the practices of audit committee	√	-	√	-	-	-	-	-	-
Factors contribute to the practices to remuneration and nomination committee	-	-	-	-	-	-	√	-	-
Factors hindering the practices of remuneration and nomination committee	√	-	√	-	-	-	-	-	-
Adoption of Cumulative Voting	-	-	√	√	√	√	-	√	-
Board membership	√	√	-	-	√	-	-	-	√
Number of directorships	√	-	√	-	√	√	√	-	-
Board of directors decisions	-	-	-	-	-	-	-	√	√
Board meeting	-	-	-	-	-	-	-	√	-
Time board members spent preparing for board meetings	-	-	-	-	-	-	-	√	√

Note: The table provides a summary of the main influences on the corporate governance practices from the factor analyses results and descriptive statistics. (√ indicates that the factor influences the governance practice, Board member/BM, corporate governance /CG)

Chapter 8: Conclusion

8.1 Introduction

The thesis main objective was to examine the corporate governance framework in the KSA environment. It has explored views regarding corporate governance practices amongst a range of relevant stakeholders including company Chairmen, CEOs, NEDs, independent NEDs and regulators in an institutional theory context. This chapter, which concludes the thesis, is structured as follows: Section 8.2 provides an overview of the thesis, before the research findings and a number of conclusions relating to corporate governance in Saudi Arabia are presented in Section 8.3. The contribution to knowledge and policy implications are discussed in Section 8.4 and 8.5 respectively. While the study's limitations are presented in Sections 8.6. Section 8.7 then discusses avenues for future research and the thesis then concludes with some overall thoughts in Section 8.8.

8.2 Overview of the Research

The thesis began with an introduction outlining the motivation and rationale of the study and addressing the need for corporate governance research in emerging markets using alternative theoretical frameworks. The main research question was set out: what are the institutional factors that influence the corporate governance practices of KSA listed companies. Chapter Two gave an overview of the historical background of Saudi Arabia, describing the nation's corporate culture, legal framework and market structure, including the Saudi corporate governance code. The aim of chapter two was to inform the reader about the environment in which KSA companies operate.

Chapter Three discussed the relevant literature on corporate governance in both developed and developing countries. The chapter focused specifically on the literature regarding board of directors, especially its composition and structure. The final section of this chapter discussed the literature on corporate governance in the Saudi context.

The theoretical underpinnings of the thesis were discussed in Chapter Four. The chapter discussed theories that have been used in previous corporate governance research, and argued that institutional theory is a suitable theoretical framework for the current study.

After viewing alternative methodological assumptions, Chapter Five justifies the philosophical stance adopted here, indicating that the research is located within the interpretive paradigm in explaining corporate governance practices in Saudi Arabia. The chapter describes in detail the two research methods used in collecting the empirical data, i.e. semi-structured interviews and a questionnaire survey developed in an institutional theory framework to identify the factors that influence the modern day corporate governance practices of KSA-listed companies.

Chapter Six discusses the findings of the semi-structured interviews. A total of forty-three interviews were carried out with board members and executives of KSA-listed companies as well as government officials from the regulatory authorities that issue corporate governance regulations in KSA. To explore the perception of board members of listed companies amongst a wider sample and thereby investigating key issues emerging from the interviews more broadly, in Chapter Seven questionnaires were used and opinions gathered regarding the factors influencing board practices and decisions in KSA-listed companies. The results of this work are presented in the previous chapter. The present chapter now discusses the results emerging from the two sets of empirical work.

8.3 Research findings

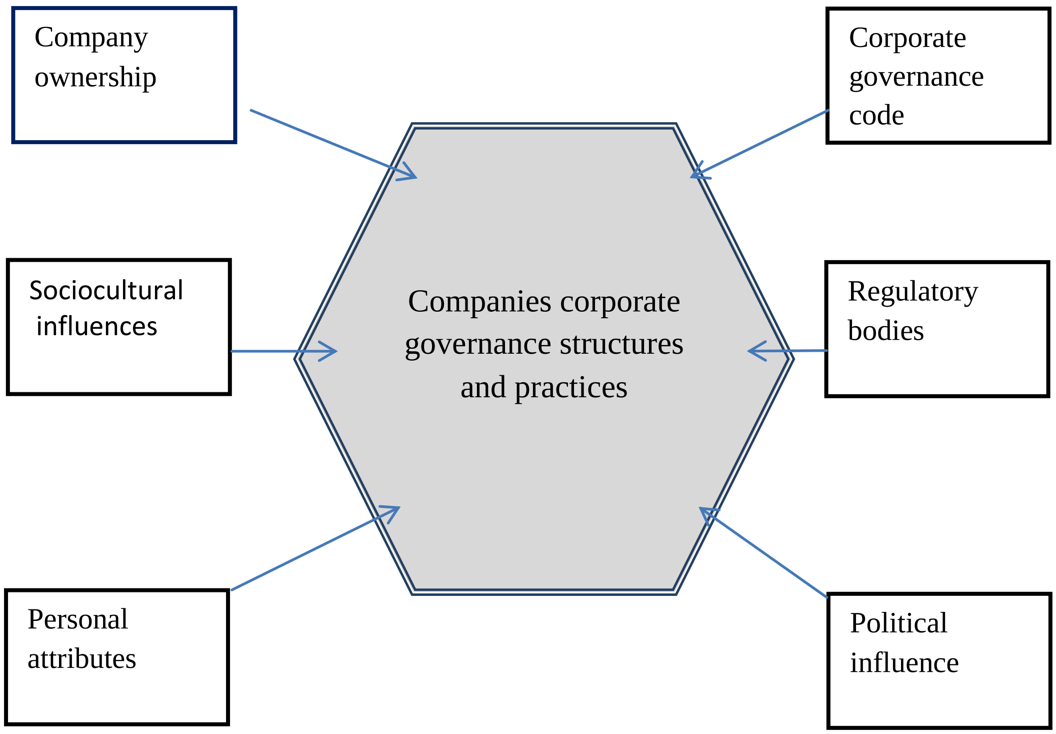
In order to address the key research question it was important to first identify KSA-listed companies' adopted governance practices. The evidence from the empirical chapters indicated that practices were often adopted to conform with the regulatory authority (CMA); corporate governance code which itself is based primarily on a 'comply or explain' approach. The issuance of the code in 2006 has clearly put coercive isomorphic pressures on companies to adopt corporate governance practices to provide institutional legitimacy. However, there was some variation in the corporate governance practices actually adopted as several institutional logics embedded within the organisational field of KSA listed companies played an important role. First, companies controlled by the government adopted practices in accordance with the code, even those requirements which are voluntary, because of the embeddedness of the institutional logics of the state. Second, and in context, family-owned companies only adopted governance practices that suited their own purposes and interests, preventing the new competing logics of the code replacing the dominant logics within family-controlled firms, as this would reduce their control and power over their firms. These two logics identified dominate KSA as a whole, although other companies have adopted their own logics in the context of normative isomorphic influences, such as those emanating from foreign-controlled firms.

The CMA mandated some practices in the corporate governance code, such as having audit and remuneration and nomination committees, disclosing governance-related items in the annual report, having an internal governance code and having INEDs on the board; the CMA has thus placed some coercive pressure on KSA-listed companies to adopt these practices. However, some of these practices remain ceremonial and actor material practice has decoupled from the code.

The evidence shows that prevailing tribal and social loyalties within Saudi society impact on the governance practices of boards of directors of KSA-listed companies in identifiable ways, with social and cultural norms such as social status, prestige, kinship, personal relationships and favouritism from personal networks all representing symbolic carriers that influence corporate governance practices, board structure and board decisions. These symbolic carriers within the Saudi context are reflected in boardroom behaviour, such as electing a chairman according to his social status, and nominating directors to the board based on trust and loyalty to major shareholders; such evidence indicates how prevalent these practices have been institutionalised within Saudi society.

The evidence also shows that the corporate governance code has resulted in INEDs being present on most company boards, and board committees as the code requires, but there are very few independent directors who are truly independent in practice; closed actor networks and social and cultural factors have dictated the INEDs role, such that it has become a ceremonial practice only. This trend reflects the dominant institutional logic within Saudi culture whereby individuals act primarily in accordance with their family or tribe's interests. Figure 8.1 is developed based on the evidence summarised in tables 6.1 and 7.24 in the previous chapters and illustrates the main findings of this thesis in relation to the set objective of identifying the factors that influence corporate governance practices in KSA-listed companies.

Figure 8.1 Factors influencing the corporate governance of KSA listed companies



Note: the figure shows the factors that influence the corporate governance structures and practices within the organisational field of KSA-listed companies

Corporate governance is still in its early stages in KSA. The lack of awareness in general in Saudi society- including amongst board members and INEDs- about the notion and its implications for board practices emerged regularly during this study. This lack of understanding within Saudi culture is an important issue that needs to be tackled, as the intended outcome of diffusing a corporate governance code among KSA-listed companies has clearly not been achieved, with only decoupling practices from policy.

8.4 Contribution to Knowledge

There are a number of contributions to our knowledge that emerge from this thesis. First the thesis investigates corporate governance in the Saudi environment, adding to the governance literature in the context of emerging economies, especially GCC countries, where very little is known. Second, this thesis adds new insights by using an institutional theory approach, in this case new institutional sociology, whereas the existing governance literature is dominated by agency theory, which is arguably of limited relevance in emerging economies, where the historical and cultural conditions are different from the Anglo-Saxon tradition.

Another contribution of this thesis is that it identifies the institutional factors that influence current corporate governance practices within the Saudi context. In this regard, corporate governance practices have been shown to be embedded within the social and cultural context, which dictates the way that boards and board members respond to corporate governance regulations; the importance of these societal norms and personal networks are important and need to be considered when implementing what are purportedly ‘western’ regulations or codes in a country such as Saudi Arabia. Thus the results of this thesis are important in comparative corporate governance research in operationalising the need to account for national specifications.

From this perspective it can be concluded that the current institutional context within Saudi society is incompatible with the corporate governance standards introduced by western countries. Therefore it is important that KSA authorities acknowledge the institutional environment when developing corporate governance rules in the future, if they are to have anything other than being decoupled from policy.

Relatedly, this study contributes to advancing our knowledge of the factors that influence boards of directors in Saudi-listed companies; thus contributing more broadly to efforts to enhance the level of understanding of corporate governance practices in Saudi Arabia. It is therefore intended that the findings of this thesis will facilitate a greater understanding of board practices in the Saudi culture in particular, and in Arab countries in general.

8.5 Policy Implications

The promotion of corporate governance practices in KSA starts with acknowledging the institutional logics that drive individuals’ actions in order to establish the manner in which embedded corporate governance practices can be changed so as to fit within the Saudi environment. The idea of convergence to a single worldwide corporate governance model has proven its appeal on a global scale. However such moves has so far neglected the need to reflect the cultural, legal and social institutions in the governance frameworks of a country; the present study has shown how relevant the latter are in practice.

More specifically, the role played by government representatives on company boards is important, but their involvement and their lack of understanding of business may impact unfavourably onto governance practices of state owned enterprises.

The KSA government and regulatory bodies need to embark on improving awareness of governance; to this end, channels of communication should be made available between the regulatory authority and listed companies directors, especially INEDs,

8.6 Limitations

This thesis focuses on corporate governance practices in Saudi Arabia, but is subject to a number of limitations. One of the major problems that the researcher faced was that corporate governance, as a topic, is relatively new and therefore not well known in the Saudi context; this led to some challenges for the researcher when explaining terms such as 'corporate governance', 'independence' and 'cumulative voting' to the participants. Another problem derived from the fact that many board members in Saudi Arabia are highly regarded individuals, and it was a challenge to gain access to the interviewees, especially when the discussions moved on to discuss the issue of political influence and power. On a related note, conducting research on a sample of listed companies also proved to be difficult; this was evident from the number of rejections given to the researcher from individuals when requesting access to interviews on the basis that sensitivity of information was important, and they wanted to ensure that no information be leaked. Further, not all parts of Saudi Arabia were included in the sample of interviews, as the nation's landmass is very large and time and financial constraints meant that the researcher was unable to cover all parts of the country. It should also be acknowledged that the empirical findings are based on the perception of a limited number of participants, 43 interviewees and 82 questionnaire respondents, reflecting the difficulty in gaining access to family firms and large shareholders

Another limitation related to the methods used in this thesis. Whilst these were chosen carefully on the basis of being the most appropriate given the study's aims', the participants in this study may have misinterpreted or misunderstand some of the questions during the interviews or while filling out the questionnaire survey. The closed-ended questions, while offering specific benefits to the research, also made it difficult to capture other important related matters that might have been relevant to the subject of corporate governance.

8.7 Avenues for Future Research

The lack of academic literature on Saudi Arabia in general and corporate governance in particular is a gap that this study has attempted to fill, but future research might want to target other GCC and Arab countries where the political, cultural and economic environments are different, especially those where the recent "Arab spring" may have impacted on a wide range of governance-related issues. Future research might therefore want to include such countries in a cross- national study.

The current study deliberately focused on corporate governance practices within listed companies. Future research may also want to include non-listed companies, and examine their corporate governance practice, and whether similar or different factors influence their governance practices. In addition, the current study only looked at the role of government institutional investors through their representatives as board members. The role of institutional investors, especially of the government, in corporate governance in KSA needs to be investigated further.

Future research might also want to investigate corporate governance within different levels of management in alternative types of company ownership structures to examine further the embedded organisational logics as well as symbolic and material carriers of practice. Future studies may also want to examine in more detail the role of NEDs and ways to ensure their independence, especially regarding the cultural barriers to such a notion in Arab society. The role of shareholders, particularly minority shareholders in corporate governance, and their level of activism within listed companies also needs to be investigated to evaluate whether improvements therein are feasible given culturally-embedded practices.

Finally, another fruitful avenue might be to conduct a field study examining the level of diffusion of institutional logics within organisations across individual sectors, and with different ownership structures, looking in particular at the role of the internal actors.

8.8 Concluding Thoughts

In conclusion, corporate governance in the KSA is influenced by the country's social and cultural context and regulators need to understand that issuing governance codes and regulations is only one requirement for a robust governance framework; active involvement is needed and companies, shareholders, stakeholders and regulators need to communicate through actor networks in order to encourage involvement in and increase awareness of corporate governance issues. The KSA regulatory authorities (CMA and SAMA) that have issued governance regulations in Saudi need to interact more via personal networks to accomplish this task; their role up until now has focused on issuing regulations and monitoring compliance by issuing sanctions concerning firms that do not adhere to mandatory governance requirements. More proactive roles are essential to overcome the weakness in current Saudi governance practices in by using networks that facilitates the diffusion of new practice to become the enabling driver of a new institutional logic.

In summary, the current study has highlighted that social and cultural issues are important, but this does not imply that cultural values and traditions should be relinquished. The actions of individuals in and around boardrooms through actor networks often operate not only against regulatory codes but also Islamic teachings. Islam preaches that people should be just, trustworthy, love one another and remember that God watches every action that an individual makes. This thesis has shown that this is not yet practiced in Saudi boardrooms. The moral obligations of people, from religious backgrounds or elsewhere, should compel them to work towards an improved society. We should remember that we are only here on earth temporarily and that when we leave we hope that it will be a better place.

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Appendices

Appendix A

CAPITAL MARKET AUTHORITY

CORPORATE GOVERNANCE REGULATIONS IN THE KINGDOM OF SAUDI ARABIA

Issued by the Board of Capital Market Authority
Pursuant to Resolution No. 1/212/2006
dated 21/10/1427AH (corresponding to 12/11/2006)
based on the Capital Market Law issued by
Royal Decree No. M/30
dated 2/6/1424AH

Amended by Resolution of the Board
of the Capital Market Authority Number 1-10-2010
Dated 30/3/1431H corresponding to 16/3/2010G

English Translation of the Official Arabic Text

Arabic is the official language of the Capital Market Authority

The current version of these Rules, as may be amended, can be found aton the CMA website: www.cma.org.sa

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Part 2: Rights of Shareholders and the General Assembly

Article **3**. General Rights of Shareholders
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PART 1
PRELIMINARY PROVISIONS

Article 1: Preamble

a) These Regulations include the rules and standards that regulate the management of joint stock companies listed in the Exchange to ensure their compliance with the best governance practices that would ensure the protection of shareholders' rights as well as the rights of stakeholders.

b) These Regulations constitute the guiding principles for all companies listed in the Exchange unless any other regulations, rules or resolutions of the Board of the Authority provide for the binding effect of some of the provisions herein contained.

c) As an exception of paragraph (b) of this article, a company must disclose in the Board of Directors` report, the provisions that have been implemented and the provisions that have not been implemented as well as the reasons for not implementing them.

Article 2: Definitions

a) Expression and terms in these regulations have the meanings they bear in the Capital Market Law and in the glossary of defined terms used in the regulations and the rules of the Capital Market Authority unless otherwise stated in these regulations.

b) For the purpose of implementing these regulations, the following expressions and terms shall have the meaning they bear as follows unless the contrary intention appears:

Independent Member: A member of the Board of Directors who enjoys complete independence. By way of example, the following shall constitute an infringement of such independence:

1. he/she holds a five per cent or more of the issued shares of the company or any of its group.
2. Being a representative of a legal person that holds a five per cent or more of the issued shares of the company or any of its group.

3. he/she, during the preceding two years, has been a senior executive of the company or of any other company within that company's group.
4. he/she is a first-degree relative of any board member of the company or of any other company within that company's group.

5. he/she is first-degree relative of any of senior executives of the company or of any other company within that company's group.

6. he/she is a board member of any company within the group of the company which he is nominated to be a member of its board.

7. If he/she, during the preceding two years, has been an employee with an affiliate of the company or an affiliate of any company of its group, such as external auditors or main suppliers; or if he/she, during the preceding two years, had a controlling interest in any such party.

Non-executive director: A member of the Board of Directors who does not have a full-time management position at the company, or who does not receive monthly or yearly salary.

First-degree relatives: father, mother, spouse and children.

Stakeholders: Any person who has an interest in the company, such as shareholders, employees, creditors, customers, suppliers, community.

Accumulative Voting: a method of voting for electing directors, which gives each shareholder a voting rights equivalent to the number of shares he/she holds. He/she has the right to use them all for one nominee or to divide them between his/her selected nominees without any duplication of these votes. This method increases the chances of the minority shareholders to appoint their representatives in the board through the right to accumulate votes for one nominee.

Minority Shareholders: Those shareholders who represent a class of shareholders that does not control the company and hence they are unable to influence the company.

PART 2
RIGHTS OF SHAREHOLDERS AND THE GENERAL ASSEMBLY

Article 3: General Rights of Shareholders

A Shareholder shall be entitled to all rights attached to the share, in particular, the right to a share of the distributable profits, the right to a share of the company's assets upon liquidation; the right to attend the General Assembly and participate in deliberations and vote on relevant decisions; the right of disposition with respect to shares; the right to supervise the Board of Directors activities, and file responsibility claims against board members; the right to inquire and have access to information without prejudice to the company's interests and in a manner that does not contradict the Capital Market Law and the Implementing Rules.

Article 4: Facilitation of Shareholders Exercise of Rights and Access to Information

a) The company in its Articles of Association and by-laws shall specify the procedures and precautions that are necessary for the shareholders' exercise of all their lawful rights.
b) All information which enable shareholders to properly exercise their rights shall be made available and such information shall be comprehensive and accurate; it must be provided and updated regularly and within the prescribed times; the company shall use the most effective means in communicating with shareholders. No discrepancy shall be exercised with respect to shareholders in relation to providing information.

Article 5[1]: Shareholders Rights related to the General Assembly

a) A General Assembly shall convene once a year at least within the six months following the end of the company's financial year.

b) The General Assembly shall convene upon a request of the Board of Directors. The Board of Directors shall invite a General Assembly to convene pursuant to a request of the auditor or a number of shareholders whose shareholdings represent at least 5% of the equity share capital.

[1] The Board of the Capital Market Authority issued resolution Number (3-40-2012) Dated 17/2/1434H corresponding to 30/12/2012G making paragraphs (i) and (j) of Article 5 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2013G.

c) Date, place, and agenda of the General Assembly shall be specified and announced by a notice, at least 20 days prior to the date the meeting; invitation for the meeting shall be published in the Exchange' website, the company's website and in two newspapers of voluminous distribution in the Kingdom. Modern high tech means shall be used in communicating with shareholders.

d) Shareholders shall be allowed the opportunity to effectively participate and vote in the General Assembly; they shall be informed about the rules governing the meetings and the voting procedure.

e) Arrangements shall be made for facilitating the participation of the greatest number of shareholders in the General Assembly, including *inter alia* determination of the appropriate place and time.

f) In preparing the General Assembly's agenda, the Board of Directors shall take into consideration matters shareholders require to be listed in that agenda; shareholders holding not less than 5% of the company's shares are entitled to add one or more items to the agenda. upon its preparation.

g) Shareholders shall be entitled to discuss matters listed in the agenda of the General Assembly and raise relevant questions to the board members and to the external auditor. The Board of Directors or the external auditor shall answer the questions raised by shareholders in a manner that does not prejudice the company's interest.

h) Matters presented to the General Assembly shall be accompanied by sufficient information to enable shareholders to make decisions.

i) Shareholders shall be enabled to peruse the minutes of the General Assembly; the company shall provide the Authority with a copy of those minutes within 10 days of the convening date of any such meeting.

j) The Exchange shall be immediately informed of the results of the General Assembly.

Article 6: Voting Rights

a) Voting is deemed to be a fundamental right of a shareholder, which shall not, in any way, be denied. The company must avoid taking any action which might hamper the use of the voting right; a shareholder must be afforded all possible assistance as may facilitate the exercise of such right.

b) In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.

c) A shareholder may, in writing, appoint any other shareholder who is not a board member and who is not an employee of the company to attend the General Assembly on his behalf.

d) Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.

Article 7: Dividends Rights of Shareholders

a) The Board of Directors shall lay down a clear policy regarding dividends, in a manner that may realize the interests of shareholders and those of the company; shareholders shall be informed of that policy during the General Assembly and reference thereto shall be made in the report of the Board of Directors.

b) The General Assembly shall approve the dividends and the date of distribution. These dividends, whether they be in cash or bonus shares shall be given, as of right, to the shareholders who are listed in the records kept at the Securities Depository Center as they appear at the end of trading session on the day on which the General Assembly is convened.

PART 3

DISCLOSURE AND TRANSPARENCY

Article 8:Policies and Procedure related to Disclosure

The company shall lay down in writing the policies, procedures and supervisory rules related to disclosure, pursuant to law.

Article 9[2]: Disclosure in the Board of Directors' Report

In addition to what is required in the Listing Rules in connection with the content of the report of the Board of Directors, which is appended to the annual financial statements of the company, such report shall include the following:

a) The implemented provisions of these Regulations as well as the provisions which have not been implemented, and the justifications for not implementing them.

b) Names of any joint stock company or companies in which the company Board of Directors member acts as a member of its Board of directors.

c) Formation of the Board of Directors and classification of its members as follows: executive board member, non-executive board member, or independent board member.

d) A brief description of the jurisdictions and duties of the Board's main committees such as the Audit Committee, the Nomination and Remuneration Committee; indicating their names, names of their chairmen, names of their members, and the aggregate of their respective meetings.

[2] The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 9 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from the first board report issued by the company following the date of the Board of the Capital Market Authority resolution mentioned above.

e) Details of compensation and remuneration paid to each of the following:

1. The Chairman and members of the Board of Directors.
2. The Top Five executives who have received the highest compensation and remuneration from the company. The CEO and the chief finance officer shall be included if they are not within the top five.

   For the purpose of this paragraph, "compensation and remuneration" means salaries, allowances, profits and any of the same; annual and periodic bonuses related to performance; long or short- term incentive schemes; and any other rights *in rem*.

f) Any punishment or penalty or preventive restriction imposed on the company by the Authority or any other supervisory or regulatory or judiciary body.

g) Results of the annual audit of the effectiveness of the internal control procedures of the company.

PART 4

BOARD OF DIRECTORS

Article 10[3]: Main Functions of the Board of Directors

Among the main functions of the Board is the fallowing:

a) Approving the strategic plans and main objectives of the company and supervising their implementation; this includes:

1. Laying down a comprehensive strategy for the company, the main work plans and the policy related to risk management, reviewing and updating of such policy.

2. Determining the most appropriate capital structure of the company, its strategies and financial objectives and approving its annual budgets.

3. Supervising the main capital expenses of the company and acquisition/disposal of assets.
4. Deciding the performance objectives to be achieved and supervising the implementation thereof and the overall performance of the company.

5. Reviewing and approving the organizational and functional structures of the company on a periodical basis.

b) Lay down rules for internal control systems and supervising them; this includes:

1. Developing a written policy that would regulates conflict of interest and remedy any possible cases of conflict by members of the Board of Directors, executive management and shareholders. This includes misuse of the company's assets

[3] The Board of the Capital Market Authority issued resolution Number (1-33-2011) Dated 3/12/1432H corresponding to 30/10/2011G making paragraph (b) of Article 10 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2012.

- The Board of the Capital Market Authority issued resolution Number (3-40-2012) Dated 17/2/1434H corresponding to 30/12/2012G making paragraphs (c) and (d) of Article 10 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 30/6/2013G.

and facilities and the arbitrary disposition resulting from dealings with the related parties.

2. Ensuring the integrity of the financial and accounting procedures including procedures related to the preparation of the financial reports.

3. Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the company could encounter and disclosing them with transparency.

4. Reviewing annually the effectiveness of the internal control systems.

c) Drafting a Corporate Governance Code for the company that does not contradict the provisions of this regulation, supervising and monitoring in general the effectiveness of the code and amending it whenever necessary.

d) Laying down specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Assembly.

e) Outlining a written policy that regulate the relationship with stakeholders with a view to protecting their respective rights; in particular, such policy must cover the following:

1. Mechanisms for indemnifying the stakeholders in case of contravening their rights under the law and their respective contracts.

2. Mechanisms for settlement of complaints or disputes that might arise between the company and the stakeholders.

3. Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them.

4. A code of conduct for the company's executives and employees compatible with the proper professional and ethical standards, and regulate their relationship with the stakeholders. The Board of Directors lays down procedures for supervising this code and ensuring compliance there with.

5. The Company's social contributions.

f) Deciding policies and procedures to ensure the company's compliance with the laws and regulations and the company's obligation to disclose material information to shareholders, creditors and other stakeholders.

Article 11 : Responsibilities of the Board

a) Without prejudice to the competences of the General Assembly, the company's Board of Directors shall assume all the necessary powers for the company's management. The ultimate responsibility for the company rests with the Board even if it sets up committees or delegates some of its powers to a third party. The Board of Directors shall avoid issuing general or indefinite power of attorney.

b) The responsibilities of the Board of Directors must be clearly stated in the company's Articles of Association.

c) The Board of Directors must carry out its duties in a responsible manner, in good faith and with due diligence. Its decisions should be based on sufficient information from the executive management, or from any other reliable source.

d) A member of the Board of Directors represents all shareholders; he undertakes to carry out whatever may be in the general interest of the company, but not the interests of the group he represents or that which voted in favor of his appointment to the Board of Directors.

e) The Board of Directors shall determine the powers to be delegated to the executive management and the procedures for taking any action and the validity of such delegation. It shall also determine matters reserved for decision by the Board of Directors. The executive management shall submit to the Board of Directors periodic reports on the exercise of the delegated powers.

f) The Board of Directors shall ensure that a procedure is laid down for orienting the new board members of the company's business and, in particular, the financial and legal aspects, in addition to their training, where necessary.

g) The Board of Directors shall ensure that sufficient information about the company is made available to all members of the Board of Directors, generally, and, in particular, to the non-executive members, to enable them to discharge their duties and responsibilities in an effective manner.

h) The Board of Directors shall not be entitled to enter into loans which spans more than three years, and shall not sell or mortgage real estate of the company, or drop the company's debts, unless it is authorized to do so by the company's Articles of Association. In the case where the company's Articles of Association includes no provisions to this respect, the Board should not act without the approval of the General Assembly, unless such acts fall within the normal scope of the company's business.

Article 12[4]: Formation of the Board

Formation of the Board of Directors shall be subject to the following:

a) The Articles of Association of the company shall specify the number of the Board of Directors members, provided that such number shall not be less than three and not more than eleven.

b) The General Assembly shall appoint the members of the Board of Directors for the duration provided for in the Articles of Association of the company, provided that such duration shall not exceed three years. Unless otherwise provided for in the Articles of Association of the company, members of the Board may be reappointed.

c) The majority of the members of the Board of Directors shall be non-executive members.

d) It is prohibited to conjoin the position of the Chairman of the Board of Directors with any other executive position in the company, such as

[4]The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making paragraphs (c) and (e) of Article 12 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.
- The Board of the Capital Market Authority issued resolution Number (3-40-2012) Dated 17/2/1434H corresponding to 30/12/2012G making paragraph (g) of Article 12 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2013G.

the Chief Executive Officer (CEO) or the managing director or the general manager.

e) The independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater.

f) The Articles of Association of the company shall specify the manner in which membership of the Board of Directors terminates. At all times, the General Assembly may dismiss all or any of the members of the Board of Directors even though the Articles of Association provide otherwise.

g) On termination of membership of a board member in any of the ways of termination, the company shall promptly notify the Authority and the Exchange and shall specify the reasons for such termination.

h) A member of the Board of Directors shall not act as a member of the Board of Directors of more than five joint stock companies at the same time.

i) Judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.

Article 13: Committees of the Board

a) A suitable number of committees shall be set up in accordance with the company's requirements and circumstances, in order to enable the Board of Directors to perform its duties in an effective manner.

b) The formation of committees subordinate to the Board of Directors shall be according to general procedures laid down by the Board, indicating the duties, the duration and the powers of each committee, and the manner in which the Board monitors its activities. The committee shall notify the Board of its activities, findings or decisions with complete transparency. The Board shall periodically pursue the activities of such committees so as to ensure that the activities entrusted to those committees are duly performed. The Board shall approve the by-laws of all committees of the Board, including, *inter alia*, the Audit Committee, Nomination and Remuneration Committee.

c) A sufficient number of the non-executive members of the Board of Directors shall be appointed in committees that are concerned with activities that might involve a conflict of interest, such as ensuring the integrity of the financial and non-financial reports, reviewing the deals concluded by related parties, nomination to membership of the Board, appointment of executive directors, and determination of remuneration.

Article 14[5]: Audit Committee

a) The Board of Directors shall set up a committee to be named the "Audit Committee". Its members shall not be less than three, including a specialist in financial and accounting matters. Executive board members are not eligible for Audit Committee membership.

b) The General Assembly of shareholders shall, upon a recommendation of the Board of Directors, issue rules for appointing the members of the Audit Committee and define the term of their office and the procedure to be followed by the Committee.

c) The duties and responsibilities of the Audit Committee include the following:

1. To supervise the company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
2. To review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it.

3. To review the internal audit reports and pursue the implementation of the corrective measures in respect of the comments included in them.

4. To recommend to the Board of Directors the appointment, dismissal and the Remuneration of external auditors; upon any

   such recommendation, regard must be made to their independence.

5. To supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.

6. To review together with the external auditor the audit plan and make any comments thereon.

7. To review the external auditor's comments on the financial statements and follow up the actions taken about them.

8. To review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.

[5] The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 14 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.

9. To review the accounting policies in force and advise the Board of Directors of any recommendation regarding them.

Article 15[6]: Nomination and Remuneration Committee

a) The Board of Directors shall set up a committee to be named "Nomination and Remuneration Committee".

b) The General Assembly shall, upon a recommendation of the Board of Directors, issue rules for the appointment of the members of the Nomination and Remuneration Committee, terms of office and the procedure to be followed by such committee.

c) The duties and responsibilities of the Nomination and Remuneration Committee include the following:

1. Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards; the Committee shall ensure that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership.
2. Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, *inter alia*, the time that a Board member should reserve for the activities of the Board.
3. Review the structure of the Board of Directors and recommend changes.
4. Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.

[6] The Board of the Capital Market Authority issued resolution Number (1-10-2010) Dated 30/3/1431H corresponding to 16/3/2010G making Article 15 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2011G.

5. Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.

6. Draw clear policies regarding the indemnities and remunerations of the Board members and top executives; in laying down such policies, the standards related to performance shall be followed.

Article 16: Meetings of the Board

1. The Board members shall allot ample time for performing their responsibilities, including the preparation for the meetings of the Board and the permanent and ad hoc committees, and shall endeavor to attend such meetings.

2. The Board shall convene its ordinary meetings regularly upon a request by the Chairman. The Chairman shall call the Board for an unforeseen meeting upon a written request by two of its members.

3. When preparing a specified agenda to be presented to the Board, the Chairman should consult the other members of the Board and the CEO. The agenda and other documentation should be sent to the members in a sufficient time prior to the meeting so that they may be able to consider such matters and prepare themselves for the meeting. Once convened, the Board shall approve the agenda; should any member of the Board raise any objection to this agenda, the details of such objection shall be entered in the minutes of the meeting.
4. The Board shall document its meetings and prepare records of the deliberations and the voting, and arrange for these records to be kept in chapters for ease of reference.

Article 17: Remuneration and Indemnification of Board Members

The Articles of Association of the company shall set forth the manner of remunerating the Board members; such remuneration may take the form of a lump sum amount, attendance allowance, rights *in rem* or a certain percentage of the profits. Any two or more of these privileges may be conjoined.

Article 18. Conflict of Interest within the Board

a) A Board member shall not, without a prior authorization from the General Assembly, to be renewed each year, have any interest (whether directly or indirectly) in the company's business and contracts. The activities to be performed through general bidding shall constitute an exception where a Board member is the best bidder. A Board member shall notify the Board of Directors of any personal interest he/she may have in the business and contracts that are completed for the company's account. Such notification shall be entered in the minutes of the meeting. A Board member who is an interested party shall not be entitled to vote on the resolution to be adopted in this regard neither in the General Assembly nor in the Board of Directors. The Chairman of the Board of Directors shall notify the General Assembly, when convened, of the activities and contracts in respect of which a Board member may have a personal interest and shall attach to such notification a special report prepared by the company's auditor.

b) A Board member shall not, without a prior authorization of the General Assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the company, or trade in any branch of the activities carried out by the company.

c) The company shall not grant cash loan whatsoever to any of its Board members or render guarantee in respect of any loan entered into by a Board member with third parties, excluding banks and other fiduciary companies.

PART 5
CLOSING PROVISIONS

Article 19: Publication and Entry into Force

These regulations shall be effective upon the date of their publication.

Appendix B

Saudi Arabian Monetary Agency (SAMA) Corporate Governance Code

مؤسسة النقد العربي السعودي

Saudi Arabian Monetary Agency

المبادئ الرئيسة للحوكمة

في البنوك العاملة بالمملكة العربية السعودية

Principles of Corporate Governance

for Banks Operating in Saudi Arabia

التحديث الأول / مارس ٢٠١٤م

First Update / March 2014

المحتويات
CONTENTS

(Part one)

Definitions:

Agency: Saudi Arabian Monetary Agency "SAMA".

Bank: Banks, licensed by Saudi Arabian Monetary Agency to carry out banking business in the Kingdom, and their foreign branches, in accordance with the provisions of the Banking Control Law.

Executive Member: A member of the Board of Directors who is also a member of the executive management of the bank and participates in the daily affairs of the bank and earns a monthly salary in return thereof.

Non- Executive Member: A member of the Board who provides opinions and technical advice and is not involved in any way in the management of the bank and does not receive a monthly or annual salary.

Independent Member: A member of the Board who enjoys complete independence. This means that the member is fully independent from management and the bank. Independence is the ability to judge things after taking into account all relevant information without undue influence from management or from other external entities.

Independence cannot be attained by a Board member in the following situations:

a. If the member is currently conducting, or was conducting in the last two years, executive assignments in the bank.
b. If the member owns 5% or more of the bank or any of its affiliated companies.
c. If there is a relationship of first-degree with any member of the Board or any member of the affiliated companies of the Bank.
d. If there is a relationship of first-degree with any senior executive of the bank or with any of the executive directors of other affiliated companies of the bank.
e. If he is a member of the Board of Directors of a company which has availed financing facilities (funded or unfunded) from the bank.
f. If he has a borrowing relationship with the bank (credit card, credit facility, guarantees...etc.) in his own name or in concert with his family members (first-degree) of more than 300,000 SAR.

(القسم الأول)

التعريفات:

المؤسسة: مؤسسة النقد العربي السعودي.

البنك: المصارف والبنوك المرخصة من مؤسسة النقد العربي السعودي لمزاولة الأعمال المصرفية في المملكة، وفروعها الأجنبية، وفقاً لأحكام نظام مراقبة البنوك.

عضو تنفيذي: عضو مجلس الإدارة الذي يكون عضواً في الإدارة التنفيذية للبنك ويشارك في الإدارة اليومية له ويتقاضى راتباً شهرياً مقابل ذلك.

عضو غير تنفيذي: عضو مجلس الإدارة الذي يقدم الرأي والمشورة الفنية ولا يشارك بأي شكل من الأشكال في إدارة البنك ومتابعة أعماله اليومية ولا يستلم راتباً شهرياً أو سنوياً.

عضو مستقل: عضو مجلس الإدارة الذي يتمتع باستقلالية كاملة. وهذا يعني، استقلالية العضو بالكامل عن الإدارة وعن البنك. وتعني الاستقلالية توافر القدرة للحكم على الأمور بعد الأخذ في الاعتبار جميع المعلومات ذات العلاقة دون أي تأثير من الإدارة أو من جهات أخرى خارجية.

لا تتحقق الاستقلالية لعضو مجلس الإدارة في الحالات الآتية:

أ. قيامه بمهام تنفيذية في البنك حالياً أو خلال السنتين الأخيرتين.
ب. امتلاكه نسبة ٥% أو أكثر في البنك أو في إحدى الشركات التابعة للبنك.
ج. وجود علاقة من الدرجة الأولى بأي عضو من أعضاء مجلس الإدارة أو أي عضو من أعضاء مجالس إدارة الشركات الأخرى التابعة للبنك.
د. وجود صلة قرابة من الدرجة الأولى مع المديرين التنفيذيين في البنك أو مع أي من المديرين التنفيذيين في الشركات الأخرى التابعة للبنك.
هـ. إذا كان عضواً في مجلس إدارة شركة لديها علاقة ائتمانية مع البنك (مباشرة أو غير مباشرة).
و. إذا كان العضو لديه علاقة ائتمانية مع البنك (بطاقات ائتمانية، تسهيل ائتماني، ضمانات..الخ) باسمه أو باسم أحد أقاربه من الدرجة الأولى تزيد عن ٣٠٠ ألف ريال سعودي.

g. If he was a partner or an employee of one of the external audit firms of the bank or one of its subsidiaries during the last two years.

h. Being a representative of a legal person that holds a five percent or more of the issued shares of the bank or any of its affiliated companies.

ز. إذا كـــان شــــريكاً أو موظفــاً لـــدى أحـــد المـــراجعين الخـــــارجيين أو إحـــــدى شــــركاته التابعـــــة خـــــلال السنتين الأخيرتين.

ح. فـــي حـــال كـــان العضـــو ممـــثلاً لشـــخص ذي صـــفة اعتباريـــة يملـــك مـــا نســـبته خمســـة فـــي المائـــة (٥%) أو أكثـــر مـــن أســـهم البنـــك أو إحـــدى الشـــركات التابعة للبنك.

The bank should notify SAMA within (5) business days, if the independent director has impaired his independence for whatever reason.

علـــى البنـــك إشـــعار المؤسســـة خـــلال (٥) أيـــام عمـــل، فـــي حـــال انتفـــت اســـتقلالية أي عضـــو لأي ســـبب مـــن الأسباب.

First-degree relatives: parents, spouse and offspring.

أقارب الدرجة الأولى: الأب، الأم، الزوج، الزوجة، الأبناء.

Stakeholders: Any person having an interest or a stake in the bank, such as shareholders, employees, investors, creditors, customers, suppliers, and supervisors.

أصـــحاب العلاقـــة: أي شـــخص لـــه مصـــلحة فـــي البنـــك مثـــل المســـاهمين والمـــوظفين والمســـتثمرين، والـــدائنين، والعمـــلاء، والموردين، والمشرفين.

Minority Shareholders: Shareholders who represent a segment of non-controlling investors of the bank and, therefore, they are not able to affect the bank's policy and strategy.

مســـاهمو الأقليـــة: المســـاهمون الـــذين يمثلـــون شـــريحة مـــن المســـتثمرين غيـــر المســـيطرين وبالتـــالي غيـــر قـــادرين علـــى التأثير في سياسة البنك واستراتيجيته.

Introduction:

1. SAMA has issued Principles of Corporate Governance for banks operating in Saudi Arabia, in accordance with the best practices recognized internationally. The members of the Board of Directors of the bank and its senior management must apply these Principles, in addition to understanding the related risks. They should ensure that capital adequacy ratios and provisions are commensurate with the size of risks and levels of liquidity and lending, thereby, protecting the rights of depositors, shareholders and other stakeholders.
2. These Principles complement the regulations, rules and circulars issued by SAMA and the Capital Market Authority regarding the core principles of corporate governance. These highlight the roles of the Board of Directors and Senior Management in risk management, setting strategies and defining responsibilities.
3. The Principles are intended to assist banks in enhancing their corporate governance frameworks, and to help Board members and senior managers to oversee the bank's activities.
4. Earlier, SAMA has issued a clarifying memo on **"Powers and Responsibilities of the Board of Directors of Commercial Banks in Saudi Arabia"** to assist members to comply with the Banking Control Law and the Company Law. Also, it required the application of accounting systems and internal control systems in addition to determining the responsibility of Board members in monitoring the assets and liabilities, investments and profitability of the bank. Recently, SAMA also issued Compensation and Incentive Rules and a Guidance Manual on "Audit Committees", clarifying the composition of an audit committee, its work mechanism and the role and responsibilities of its members.
5. SAMA issued a circular to the banks regarding: "**Requirements for Appointments to Senior Positions in Financial Institutions Supervised by the Saudi Arabian Monetary Agency**" aimed at ensuring that directors and senior managers possess integrity, honesty, and good reputation.
6. Moreover, during the last three decades, SAMA has issued several guidance documents related to

مقدمة:

١. أصدرت مؤسسة النقد العربي السعودي مبادئ حوكمة البنوك العاملة في المملكة العربية السعودية بما يتفق مع أفضل الممارسات المتعارف عليها دولياً. وعلى أعضاء مجلس إدارة البنك وجهازه التنفيذي تطبيق هذه المبادئ، إضافة إلى فهم المخاطر ذات العلاقة والتأكد من كفاية معدلات رأس المال والمخصصات وتناسبها مع حجم المخاطر ومعدلات السيولة والإقراض وبما يكفل حماية حقوق المودعين والمساهمين وأصحاب المصالح.

٢. تعد المبادئ مكملة للوائح والقواعد والتعاميم الصادرة من مؤسسة النقد العربي السعودي وهيئة السوق المالية بشأن تعليمات الحوكمة ومبادئها الرئيسة، وتؤكد على دور مجلس الإدارة والإدارة العليا في إدارة المخاطر ووضع الاستراتيجيات وتحديد المسؤولية.

٣. تهدف المبادئ إلى مساعدة البنوك على تعزيز الأطر العامة للحوكمة والإدارة الفاعلة، إضافة إلى مساعدة أعضاء المجلس والإدارة العليا في الإشراف على أنشطة البنك.

٤. سبق لمؤسسة النقد العربي السعودي أن أصدرت مذكرة إرشادية بشأن "**صلاحيات ومسئوليات أعضاء مجلس الإدارة للبنوك العاملة في المملكة العربية السعودية**"، بهدف مساعدة أعضاء مجلس الإدارة على الالتزام بنظام مراقبة البنوك ونظام الشركات، ولا سيما تطبيق الأنظمة المحاسبية ونظام المراجعة الداخلية، إضافة إلى تحديد مسئولية أعضاء مجلس الإدارة في مراقبة الأصول والمطلوبات وربحية البنك واستثماراته. كما أصدرت المؤسسة حديثاً قواعد المكافآت والحوافز والدليل الإرشادي للجان المراجعة الذي يوضح تكوين اللجنة ودور أعضاءها ومسئولياتهم وآلية عملها.

٥. أصدرت مؤسسة النقد العربي السعودي تعميماً للبنوك بشأن" **متطلبات التعيين في المناصب القيادية في المؤسسات المالية الخاضعة لإشراف مؤسسة النقد العربي السعودي** " يهدف إلى التأكيد على تمتع أعضاء مجلس الإدارة والإدارة العليا بصفات النزاهة والأمانة والسمعة الحسنة.

٦. علاوة على ذلك وخلال العقود الثلاثة الماضية، أصدرت مؤسسة النقد العربي السعودي تعليمات

corporate governance including Internal Controls guidelines; Know Your Customers rules, Anti-Money Laundering and Combating Terrorism Financing, rules for Combating Fraud and a Code of Professional Ethics of Staff in addition to issuing specific regulations on the function of Internal Audit Department and the role of External Auditors. SAMA also requires banks to establish a specialized Compliance Unit, to ensure the application of the International Financial Reporting Standards and to use the services of two certified accounting firms for external audit.

7. The Board of Directors should realize that working in the banking sector is different from carrying out any other business, due to the following reasons:

   a. The banking sector involves more risks than other sectors.
   b. Banks incur obligations to depositors who may withdraw deposits at any time, and, therefore, there should be sufficient liquidity available to meet the potential needs of depositors.
   c. Failure of a bank to meet these needs may affect other banks, which consequently may affect the whole banking sector.
   d. The size of the obligations undertaken by the bank and the potential risk posed to it when accompanied by weak internal control can lead to financial crises.
   e. Banking risks are more complex and difficult to understand by both investors and even by the Board members in some cases.

8. Corporate Governance has become one of the most important concerns in the business world. The application of good principles of corporate governance can lead to many benefits, including:
   a. Improving operational efficiency and assisting in decision-making process.
   b. Attracting foreign investments.
   c. Improving credit ratings and lowering the cost of capital.
   d. Building or restoring confidence among key stakeholders.

عدة لها علاقة بالحوكمة، من ضمنها إرشادات الرقابة الداخلية ومبدأ اعرف عميلك، وأنظمة وقواعد مكافحة غسل الأموال وتمويل الإرهاب، ومكافحة الاحتيال، وميثاق أخلاقيات المهنة للموظفين، إضافة إلى إصدار تعليمات محددة لعمل إدارة المراجعة الداخلية ودور المراجعين الخارجيين. وتُلزِم المؤسسة البنوك بإنشاء وحدة لمراقبة الالتزام وتؤكد على تطبيق المعايير الدولية لكتابة التقارير المالية، وضرورة الاستعانة بخدمات مكتبي محاسبة للمراجعة الخارجية.

٧. على أعضاء مجلس الإدارة الإدراك أن العمل في القطاع المصرفي يختلف عن العمل في القطاعات الأخرى، وذلك عائد للأسباب الآتية:

   أ. تُعد المخاطر في القطاع المصرفي أعلى منها في غيره من القطاعات.
   ب. يتحمل البنك التزامات تجاه مودعيه وقد يطلبون تسييل ودائعهم في أي وقت، ويتطلب ذلك من البنك توفير السيولة الكافية لتلبية الاحتياجات المحتملة للمودعين.
   ج. عدم قدرة أي من البنوك العاملة على تلبية هذه الاحتياجات قد تؤثر على البنوك الأخرى وبالتالي على كافة القطاع المصرفي.
   د. قد يؤدي حجم التزامات البنك وبالتالي المخاطر التي يواجهها عند اقترانها بأنظمة ضعيفة للرقابة الداخلية إلى أزمات مالية.
   هـ. مخاطر العمل المصرفي أكثر تعقيداً وأصعب فهماً عند المستثمرين وفي بعض الأحيان عند أعضاء مجلس الإدارة.

٨. أصبحت حوكمة الشركات من القضايا الضرورية في عالم الأعمال، ويحقق توافر مبادئ جيدة للحوكمة العديد من الفوائد من أهمها:

   أ. تطوير الكفاءة التشغيلية والمساعدة في صنع القرار.
   ب. جذب الاستثمارات الخارجية.
   ج. تحسين التقييم الائتماني وخفض كلفة رأس المال.
   د. بناء أو استعادة الثقة بين أصحاب المصلحة الرئيسين.

e. Enhancing relationships with borrowers.
f. Increasing the financial markets stability and contributing to economic growth and employment.

هـ. تعزيز العلاقة مع المقترضين.
و. زيادة استقرار الأسواق المالية والإسهام في التوظيف والنمو الاقتصادي.

9. Corporate governance is a key element in improving economic efficiency and growth, as well as enhancing investor confidence. Corporate governance involves a set of relationships between company management and its Board of Directors, shareholders and other stakeholders. It also clarifies the general framework through which goals are set and their achievements can be supervised and performance be reviewed. Corporate governance should provide proper incentives for the Board members and <u>executive directors</u> to pursue the bank's objectives and to realize the interests of the company and its shareholders. The presence of an effective corporate governance system contributes to higher rates of trust and enhances the market efficiency.

٩. تعد حوكمة الشركات عنصراً رئيساً في تحسين الكفاءة الاقتصادية والنمو، فضلاً عن تعزيز ثقة المستثمرين. وتنطوي حوكمة الشركات على مجموعة من العلاقات بين إدارة الشركة ومجلس إدارتها وبين مساهميها وأصحاب المصالح الآخرين. كما أنها توضح الإطار العام الذي يتم من خلاله تحديد الأهداف والإشراف على تحقيقها ومراجعة الأداء. وينبغي أن توفر الإدارة السليمة مجموعة حوافز مناسبة لأعضاء مجالس الإدارات والمدراء التنفيذيين تساعدهم على تحقيق أهداف البنك وبما يحقق مصلحته ومصالح مساهميه. ويساهم توافر نظام فعال للحوكمة في رفع معدلات الثقة وتعزيز عمل السوق بكل كفاءة.

10. Corporate Governance is concerned with the way in which business and affairs of banks are managed by Board of Directors and senior management, particularly regarding the following:
a. Setting the bank's objectives.
b. Management of the Bank's work.
c. Protecting the interests of depositors.
d. Complying with due responsibility towards the shareholders and other stakeholders.
e. The Bank's activities should not contradict with applicable laws and regulations.

١٠. تُعنى حوكمة الشركات بأسلوب إدارة الأعمال التجارية وشئون المصارف من قِبل مجلس الإدارة والإدارة العليا، ولا سيما بالنسبة للآتي:

أ. وضع أهداف البنك.
ب. إدارة عمل البنك.
ج. حماية مصالح المودعين.
د. الالتزام بالمسئولية الواجبة تجاه المساهمين وأصحاب المصالح الأخرى.
هـ. عدم تعارض أنشطة البنك مع الأنظمة واللوائح.

11. An efficient corporate governance system requires independence and separation of the post of the Chairman of the Board from that of the Chief Executive Officer (General Manager). It also requires the existence of an organizational structure with clear assignment of powers and responsibilities between the main parties of the bank, including shareholders, Board members and managers. It also requires the establishment of a general control framework with internal control and risk management systems, internal audit, compliance function, and an external audit.

١١. يتطلب نظام الحوكمة الفعال استقلالية وفصلاً لمنصب رئيس مجلس الإدارة عن منصب الرئيس التنفيذي (المدير العام). ويقتضي ذلك توافر هياكل تنظيمية وإدارية جيدة ووضوحاً في الصلاحيات والمسؤوليات بين الأطراف الرئيسة في البنك من مساهمين وأعضاء مجلس إدارة وتنفيذيين، إضافة إلى وضع إطار عام للرقابة من خلال إدارة للمخاطر وإدارة للمراجعة الداخلية وأنظمة رقابة داخلية وإدارة التزام ومراجع خارجي.

12. Principles of Corporate Governance have gained international importance after the issuance of

١٢. اكتسبت مبادئ حوكمة الشركات أهمية دولية بعد إصدار عدد من الهيئات والمنظمات المختصة

guidance instructions on corporate governance by a number of competent entities and organizations, which have been accepted as an international benchmark. These entities include:

a. Basel Committee on Banking Supervision
b. Organization for Economic Co-operation and Development
c. Islamic Financial Services Board (IFSB)
d. The World Bank

13. These Principles have been issued in both Arabic and English. In the event of discrepancy in the interpretation of the two texts, the Arabic text shall prevail.

تعليمات إرشادية لمبادئ الحوكمة متعارف عليها دولياً، ومن أهم هذه الهيئات:

أ. لجنة بازل للرقابة المصرفية (BCBS).
ب. منظمة التعاون الاقتصادي والتنمية (OECD).
ج. مجلس الخدمات المالية الإسلامية (IFSB).
د. البنك الدولي (WB).

١٣. صدرت هذه المبادئ باللغتين العربية والإنجليزية، وعند اختلاف النص بينهما فيعتمد النص باللغة العربية.

(Part two)

(القسم الثاني)

Principles of Corporate Governance

Principle 1:

المبادئ الرئيسة للحوكمة

المبدأ الأول:

The qualifications of the members of the Board:

Board members should be qualified to perform the tasks entrusted to them. They should have a clear understanding of their required role and be able to exercise sound and objective judgement on all affairs of the bank. They "collectively" should have a mix of professional, practical and managerial skills, financial experience, high reputation and competence, integrity and ability to oversee, follow up and direct the bank to achieve its strategic goals.

مؤهلات أعضاء مجلس الإدارة:

ينبغي أن يكون أعضاء مجلس الإدارة مؤهلين للقيام بالأعمال الموكلة إليهم، وأن يكون لديهم فهم واضح للدور المطلوب منهم ولديهم القدرة على ممارسة الحكم السليم بموضوعية في جميع شئون البنك. وعلى الأعضاء مجتمعين أن يملكوا مهارات مهنية وعملية وإدارية مختلفة وخبرات مالية وصفات شخصية ملائمة، ولا سيما الأمانة والالتزام، والتمتع بقدر عالٍ من السمعة والكفاءة والمسئولية، ولديهم المقدرة على الإشراف والمتابعة وتوجيه شئون البنك لتحقيق أهدافه الإستراتيجية.

14. The Board should disclose the CV of all members of the Board of Directors so that shareholders and investors can judge their competence and their ability to carry out their functions effectively. Also, the Board should disclose the mechanism used to oversee the integrity and performance of members, taking care not to nominate_any member already sentenced by a court judgment or convicted of a crime involving moral turpitude and honesty.

١٤. على المجلس الإفصاح عن السيرة الذاتية لجميع أعضاء مجلس الإدارة ليتمكن المساهمون والمستثمرون من الحكم على كفاءتهم وقدرتهم على القيام بمهامهم على نحو فعال. كذلك ينبغي على المجلس الإفصاح عن الآلية المتبعة للإشراف على نزاهة وأداء الأعضاء، ومراعاة عدم ترشيح أي عضو سبقت إدانته بحكم قضائي أو جريمة مخلة بالشرف والأمانة.

15. The effectiveness of the Board depends on the experience and judgment of Directors and their ability to judge from a comprehensive perspective, and to effectively participate in the Board's deliberations. They should be familiar with issues raised before taking a decision thereon.

١٥. تعتمد فعالية مجلس الإدارة على خبرة الأعضاء وقدرتهم على الحكم بمنظور شامل، إضافة إلى مشاركتهم بفعالية في مناقشات المجلس والإلمام بالمواضيع المطروحة قبل اتخاذ قرار بشأنها.

16. Board of Directors should possess a high level of knowledge, experience and skills, in addition to continuous desire to learn and develop. Qualifications of the members should include the following character traits:
    a. **Leadership:** A Member should have leadership skills and the ability to delegate powers, to provide effective oversight over the affairs of the bank and to adhere to corporate values and professional ethics.
    b. **Independence:** The ability of the member to be neutral and objective in decision making and without undue influence from management or from other external entities.

١٦. ينبغي أن يتمتع أعضاء مجلس الإدارة بمستوى عالٍ من المعرفة والخبرة والمهارة، إضافة إلى الرغبة المستمرة في التعلم والتطور. وينبغي أن تتضمن مؤهلات العضو، الصفات الآتية:

أ. **القيادة:** ينبغي أن يتمتع العضو بمهارات قيادية وأن يكون لدية القدرة على منح الصلاحيات وبما يؤدي إلى تحفيز الأداء لتطبيق أفضل الممارسات في مجال الإدارة الفاعلة والتمسك بالقيم والأخلاق المهنية.

ب. **الاستقلالية:** وتعني قدرة العضو على أن يكون محايداً وموضوعياً في اتخاذ القرار دون أي تأثير من الإدارة أو من جهات أخرى خارجية.

c. **Competence:** It is reflected by the level of education, training, skills and desire to continue learning, as well as diversified experience of no less than ten years in different areas institutions position jurisdictions, such as banking, insurance, business, economics, and accounting.

ج. **الكفاءة:** ويعكسها مستوى التعليم والتدريب والمهارات والرغبة في مواصلة التعلم، إضافة إلى توافر خبرة متنوعة لا تقل عن عشر سنوات في مجالات متعددة يكون ضمنها خبرة في عمل البنوك، والتأمين والإدارة والاقتصاد والمحاسبة.

d. **Guidance:** the ability to provide strategic guidance, long-term planning and a clear future vision.

د. **التوجيه:** القدرة على التوجيه الاستراتيجي والتخطيط بعيد المدى والرؤية المستقبلية الواضحة.

e. **Financial Knowledge:** the ability to read and understand financial statements and reports as well as ratios used to measure performance.

هـ. **المعرفة المالية:** القدرة على قراءة البيانات والتقارير المالية وفهمها، وكذلك النسب المستخدمة لقياس الأداء.

f. **Age:** the member should be in good health and be able to carry out his duties.

و. **السن:** الصحة الجيدة وعدم وجود مانع صحي يعيق العضو عن ممارسة مسئولياته.

17. Commitment of members of the Board to the principles of truth and honesty, loyalty, and paying attention to the bank’s interests are the most important requirements to achieve the principles of sound governance, particularly the following:

١٧. يعد التزام أعضاء مجلس الإدارة بمبادئ الصدق والأمانة والولاء والاهتمام بمصالح البنك من أهم متطلبات مبادئ الحوكمة السليمة، ولا سيما الآتي:

a. **Honesty:** The member's relationship with the bank must be professionally honest, and the member should disclose, like any other officer, any relevant information before executing any transaction or contract with the bank or its subsidiaries.

أ. **الصدق:** ينبغي أن تكون علاقة العضو بالبنك علاقة مهنية صادقة، وأن يقوم مثل أي موظف آخر بالتصريح عن أي معلومات ذات علاقة قبل تنفيذ أي صفقة أو عقد مع البنك أو مع إحدى شركاته التابعة.

b. **Loyalty:** Members of the Board and Senior Management of the bank should avoid transactions involving conflict of interest, and they should make sure that the transaction or transactions are fair and carried out without any preference.

ب. **الولاء:** على أعضاء مجلس الإدارة والمدراء التنفيذيين في البنك تجنب العمليات التي قد يظهر فيها تضارب في المصالح، والتأكد من أن العملية أو (العمليات) عادلة وتم تنفيذها دون تفضيل.

In order to achieve the desired loyalty, the member shall :

- Exercise his role honestly and with integrity, placing the bank's interest over his own.
- Avoid conflict of interests and not to exploit his position to achieve personal goals.
- Inform the Board (without delay) of any potential conflict of interest and not to vote on any decisions that might affect the interests of

وتحقيقاً للولاء المنشود، ينبغي على العضو مراعاة الآتي:

- ممارسة دوره بأمانة ونزاهة وتفضيل مصلحة البنك على مصالحه الشخصية.
- تجنب تضارب المصالح وعدم استغلال المنصب لتحقيق مصالح شخصية.
- إبلاغ المجلس (دون تأخير)، عن أي عملية تضارب محتمل في المصالح وعدم التصويت على أي قرار قد يؤثر على مصالح البنك

the bank, its depositors and its shareholders.

- Maintain confidentiality of information and not to disclose it to any other party, and avoid using it for personal gains.
- Not exploit the bank's assets for personal gain.

c. **Care:** Includes carrying out all duties and responsibilities defined in the Articles of Association of the bank and those set by the supervisory and regulatory authorities, and seek to obtain all the information available to make sure that all decisions are taken in favor of the bank. In addition, a member must undertake the following :

- Work with full honesty for the interests of the bank, its depositors and its shareholders.
- Raise relevant questions and discuss with the senior management of the bank.
- Ensure the inclusion of important and key topics in the Board's agenda.
- Ensure that bank's compliance with the application of all related regulations and instructions.
- Attend meetings regularly and not to be absent without a valid excuse.
- Ensure that the Executive Board member provide comprehensive information to the Board when requested.
- Control and supervision over the management of the bank.

ومودعيه ومساهميه.

- الحفاظ على سرية المعلومات وعدم إفشائها لطرف آخر، إضافة إلى تجنب الاستفادة منها لتحقيق مكاسب شخصية.
- عدم استغلال موجودات البنك لتحقيق مكاسب شخصية.

ج. **الاهتمام:** يشمل تأدية الواجبات والمسؤوليات المحددة في النظام الأساسي للبنك والأخرى المحددة من السلطات الإشرافية والرقابية، والسعي إلى الحصول على كافة المعلومات المتوافرة للتأكد من أن جميع القرارات المتخذة في صالح البنك. إضافةً إلى ذلك، ينبغي على العضو القيام بالآتي:

- العمل بكل أمانة لمصلحة البنك ومودعيه ومساهميه.
- طرح الأسئلة ذات العلاقة ومناقشة المدراء التنفيذيين بالبنك.
- التأكد من إدراج المواضيع المهمة والرئيسة في جدول أعمال المجلس.
- التأكد من التزام البنك تطبيق جميع الأنظمة والتعليمات ذات العلاقة.
- حضور الاجتماعات بانتظام وعدم التغيب دون عذر يستدعي ذلك.
- التأكد من تقديم عضو مجلس الإدارة التنفيذي معلومات شاملة للمجلس في حال طلبها.
- الإشراف والرقابة على إدارة البنك.

Principle 2:

Composition, Appointment and the Board Affairs

المبدأ الثاني:

التشكيل، التعيين وشئون المجلس

The Board should set out and ensure clear lines of responsibility and accountability at all levels of the bank. There must be a strict separation of responsibilities at the level of the senior management of the bank. Members of the Board shall choose a non-executive Director as the Chairman of the Board of Directors, who must ensure a fair representation of independent and non-independent Directors according to the bank's size and its activities.

على المجلس وضع حدود واضحة للمسئولية والمساءلة والالتزام بها في جميع مستويات البنك، وينبغي الفصل التام للمسئوليات على مستوى الإدارة العليا. وعلى الأعضاء اختيار رئيس غير تنفيذي لرئاسة مجلس الإدارة الذي عليه التأكد من عدالة تمثيل الأعضاء المستقلين وغير المستقلين بما يتفق مع حجم البنك ونشاطه.

18. The Board must choose a Non-Executive Director as Chairman of the Board, and also the Board may select a non-executive member as Vice-Chairman (after obtaining a "no-objection" of the Saudi Arabian Monetary Agency). The Chairman and Vice-Chairman shall not exercise any of the responsibilities of the Chief Executive Officer (General Manager), and there should be a separation of responsibilities and distribution thereof.
19. Each bank shall adopt specific procedures and instructions to nominate and select members of the Board. The number of executive members in the board shall not exceed two and at least two board members must be independent. The Board should determine whether a Director is independent and assess his ability to judge things, and determine whether there are any relationships or circumstances which might affect, or could appear to affect, the Director's independence. The bank should consult with and inform SAMA and obtain its written no-objection before the nomination, the appointment of any board member or any employee from the senior management positions, and also notify SAMA in writing of the accepted resignation/ceasing to continue working/ or termination of the services of any board member or any employee from the senior management for whatever reason, within (5) business days.
20. The Articles of Association of the bank shall specify the number of the Board of Directors and their responsibilities, bearing in mind that according to the best practices, the appropriate number of Board members is between nine and eleven.

١٨. على المجلس اختيار عضو غير تنفيذي لرئاسة المجلس، وكذلك يجوز اختيار عضو غير تنفيذي نائباً للرئيس (بعد الحصول على عدم ممانعة مؤسسة النقد العربي السعودي). و ينبغي أن لا يمارس الرئيس أو نائب الرئيس أياً من مهام عضو مجلس الإدارة التنفيذي (المدير العام)، وأن يكون هناك فصل للمسؤوليات وتوزيع لها.

١٩. على كل بنك اعتماد إجراءات محددة وتعليمات واضحة لترشيح واختيار أعضاء مجلس الإدارة وأن لا يتجاوز عدد الأعضاء التنفيذيين أثنين، وأن لا يقل عدد الأعضاء المستقلين عن عضوين. وعلى المجلس أن يحدد استقلالية العضو ويقيم شخصيته وقدرته في الحكم على الأمور وتحديد أي علاقة أو ظروف قد تؤدي أو من المحتمل أن تؤدي إلى التأثير على استقلالية العضو، وينبغي التشاور مع المؤسسة وإشعارها والحصول كتابياً على عدم ممانعتها قبل ترشيح أو تعيين أي عضو من أعضاء مجلس الإدارة أو أي من شاغلي المناصب القيادية، كما يجب على البنك إشعار المؤسسة كتابياً عند قبول استقالة/ أو ترك العمل/أو إنهاء خدمات/انتهاء عضوية أي عضو من أعضاء مجلس الإدارة أو أي موظف من شاغلي المناصب القيادية لأي سبب كان خلال (٥) أيام عمل.

٢٠. ينبغي أن يحدد النظام الأساسي للبنك عدد أعضاء مجلس الإدارة ومسئولياتهم، مع الإشارة إلى أن أفضل الممارسات المتبعة للعدد المناسب لأعضاء المجلس يتراوح بين تسعة وأحد عشر عضواً.

21. No person shall be a Director on the Board of more than one bank licensed and incorporated in the Kingdom of Saudi Arabia. A Board member may participate in the membership of the Board of other companies other than banks, with a maximum of five listed companies provided that there should be no conflict of interests in his membership in any of these companies. Any Board member or employee of a bank who has been adjudicated bankrupt or convicted of a moral offence shall be considered as having resigned his post.

٢١. يحظر أن يكون الشخص عضواً في مجلس إدارة أكثر من بنك مرخص ويعمل داخل المملكة العربية السعودية، ويحق لعضو مجلس الإدارة المشاركة في عضوية مجالس إدارة شركات أخرى غير البنوك وبحد أقصى خمس شركات مدرجة، شريطة عدم وجود تعارض في المصالح لعضويته في أي من هذه الشركات، ويعد مستقيلاً أي عضو مجلس إدارة بنك أو موظف صدر حكم بإشهار إفلاسه أو حكم عليه في جريمة مخلة بالشرف.

22. The term of the members of the Board shall be three years (All Directors, including the Chairman of the Board and general manager shall re-nominate themselves every three years through the Ordinary General Assembly (OGA) which follows their appointment).

٢٢. تكون فترة عضوية مجلس الإدارة ثلاث سنوات ويحق لجميع أعضاء المجلس"بمن فيهم رئيس المجلس والمدير العام" إعادة ترشيح أنفسهم كل ثلاث سنوات عن طريق الجمعية العامة التي تلي تعيينهم.

23. Each bank must get SAMA no objection before the appointment of the board members and members of the board committees.

٢٣. ينبغي على كل بنك الحصول على عدم ممانعة المؤسسة قبل تعيين أعضاء المجلس وأعضاء اللجان المنبثقة من المجلس.

24. According to best practices, it is preferable that a board member should not serve on the Board and its committees for more than twelve consecutive years from the date of issuance of these principles.

٢٤. حسب أفضل الممارسات المتبعة، فإنه يُفضّل أن لا تتجاوز خدمة أي عضو في مجلس الإدارة واللجان المنبثقة منه أكثر من اثنتي عشر سنة متواصلة من تاريخ صدور المبادئ.

25. The board should set an appropriate succession policy for replacement of its members to ensure continuity and graduation in the process of replacement. The re-nomination will help to assess the performance of the Board and its committees and the performance of each of its members. It is worth mentioning that appointment and re-election apply to the Managing Director in his capacity as a member of the Board rather than as a chief executive or general manager of the bank.

٢٥. على المجلس وضع سياسة إحلال مناسبة لأعضائه تضمن الإستمرارية والتدرج في عملية الإحلال. وتؤدي إعادة الترشيح إلى المساعدة على متابعة أداء المجلس واللجان التابعة، وتقييم أداء كل عضو من أعضائه. وتجدر الإشارة إلى أن التعيين وإعادة الانتخاب تنطبقان على عضو مجلس الإدارة المنتدب بصفته عضواً في المجلس وليس بصفته رئيساً تنفيذياً أو مديراً عاماً للبنك.

26. Each bank should form a Nomination and Compensation Committee (NCC). The functions of the Committee include reviewing the curriculum vitae and evaluation of nominated members of the Board, and other functions as defined under SAMA Rules on Compensation Practices. The Board shall adopt specific procedures for assessing the effectiveness of the Board and reviewing the performance and contribution of each of its members

٢٦. يجب على كل بنك تكوين لجنة للترشيح والمكافآت، يكون من ضمن مهامها مراجعة السيرة الذاتية وتقييم الأعضاء المرشحين لعضوية المجلس واعتماد آلية تحديد المكافآت والحوافز، مع الأخذ في الاعتبار تعليمات المؤسسة ذات العلاقة. وعلى مجلس الإدارة اعتماد إجراءات محددة لتقييم فعالية المجلس ومراجعة أداء كل عضو ومساهمته.

27. All appointments to senior positions including as members of the Board of Directors of the bank shall be made in accordance with the SAMA's Requirements for Appointments to Senior Positions in Financial Institutions issued in July 2013.

٢٧. جميع التعيينات لشاغلي المناصب القيادية بما فيها أعضاء مجلس الإدارة يجب أن تتم وفق ما ورد في متطلبات التعيين في المناصب القيادية في المؤسسات المالية الصادرة بتاريخ يوليو ٢٠١٣م.

28. The Board shall carry out, on a periodical basis, regular assessment of both the Board members as a whole and of the individual Board members. Entrusting an external entity to carry out a Board assessment can contribute to the objectivity of the process. The Board should periodically review the effectiveness of its own controls and work procedures, and identify weak points and make any necessary changes whenever the need arises thereof.

٢٨. ينبغي على مجلس الإدارة وبصفةٍ دورية تقييم أداء أعضاء المجلس مجتمعين وتقييم أداء كل عضو على حدة، ويساهم تكليف جهة خارجية لتقييم أداء المجلس وأعضائه في موضوعية التقييم. وعلى المجلس مراجعة فعالية ضوابطه المتبعة وإجراءات عمله وتحديد نقاط الضعف وعمل التغييرات المطلوبة كلما دعت الحاجة إلى ذلك.

29. Members shall be provided with induction programmes and comprehensive information on the bank's mission, its strategies and best professional practices. In addition, the strategic objectives that the bank seeks to achieve shall be defined. The bank shall provide members of the Board (executive and non-executive) with a memorandum outlining their roles and responsibilities, and contractual terms and conditions between the two parties. The bank shall have in place a mechanism to monitor new supervisory rules and control regulations, and their potential impact on both the bank and individual members.

٢٩. ينبغي تقديم برامج تعريفية للأعضاء ومعلومات شاملة عن رسالة البنك وإستراتيجيته وأنشطته ومنتجاته وأفضل الممارسات المهنية، إضافة إلى تحديد الأهداف الإستراتيجية التي يسعى البنك إلى تحقيقها. وعلى البنك تزويد أعضاء مجلس الإدارة (التنفيذيين وغير التنفيذيين) بمذكرة توضح الدور المطلوب منهم ومسئولياتهم والشروط والأحكام التعاقدية بين الطرفين، وينبغي توافر آلية لدى البنك لمتابعة مستجدات الأنظمة والتعليمات الإشرافية والرقابية وإيضاح تأثيرها المتوقع على البنك وعلى المجلس وعلى الأعضاء كل على حده.

30. Members of the Board shall meet to discuss and study the strategies of the bank provided that the number of meetings shall not be less than four a year, apart from the Annual General Assembly meeting. All members should attend and participate in Board meetings, and if a member fails to attend three meetings a year without an excuse, he/she should be substituted by another member. It is advisable that non-executive Directors meet periodically.

٣٠. على أعضاء مجلس الإدارة عقد اجتماعات لمناقشة ودراسة إستراتيجيات البنك، على أن لا يقل عدد الاجتماعات عن أربعة اجتماعات سنوياً، فضلاً عن اجتماع الجمعية العمومية. وينبغي على الأعضاء جميعهم الحضور والمشاركة في اجتماعات المجلس. وفي حال عدم مشاركة عضو في ثلاثة اجتماعات في السنة دون عذر يستدعي ذلك، يتم إحلال عضو آخر بديل محله. ومن المناسب عقد اجتماع بصورة دورية لأعضاء المجلس غير التنفيذيين.

31. The Secretary of the Board of Directors shall conduct his/her responsibilities as directed by the Chairman of the Board. His/Her responsibilities include ensuring the availability of appropriate means of communication for the exchange and recording of information between the Board and its committees and between members of senior management and non-executive board members in addition to maintaining minutes of the Board meetings. The minutes are the permanent official record of the work and decisions taken by the Board and its subcommittees. The Minutes should be accurate and should clearly reflect all the items

٣١. يؤدي سكرتير مجلس الإدارة مسئولياته بناءً على توجيه رئيس المجلس، وتشمل التأكد من توافر وسائل اتصال مناسبة لتبادل وتسجيل المعلومات بين المجلس ولجانه وبين أعضاء الإدارة التنفيذية والأعضاء غير التنفيذيين إضافة إلى حفظ محاضر اجتماعات المجلس. وتعد محاضر اجتماعات المجلس السجل الرسمي الدائم للأعمال والقرارات المتخذة من المجلس واللجان المنبثقة. وينبغي مراعاة الدقة في محاضر الاجتماع وأن تعكس بوضوح كافة البنود والمواضيع

and topics discussed during the meetings of the Board of Directors and should record all decisions taken and any other matters discussed at the meetings.

التـــي طرحـــت فـــي اجتماعـــات مجلـــس الإدارة والقـــرارات المتخذة وأي مواضيع أخرى تمت مناقشتها.

32. The Board's minutes shall document any votes made during the meetings, including objections or abstention from voting. Any documents referred to during the meetings shall be attached and referred to. A comprehensive statement should be prepared containing the names of the present and absent members, and a list of committees approved and any case of abstention (if any) by any member and the reasons thereof.

٣٢. ينبغـــي أن يوثـــق محضـــر مجلـــس الإدارة أي عمليـــة تصـــويت تمـــت خـــلال الاجتمـــاع، بمـــا فـــي ذلـــك المعارضـــة أو الامتنـــاع عـــن التصـــويت. وينبغـــي إرفـــاق أو الإشـــارة إلـــى أي وثـــائق أو مســـتندات تـــم الرجـــوع إليهـــا خـــلال الاجتماعـــات، وأن يعـــد بيـــان يشـــتمل علـــى أســـماء الأعضـــاء الحاضـــرين وغيـــر الحاضـــرين، وقائمـــة باللجـــان المعتمـــدة وأي امتنـــاع عن التصويت (إن وجد) لأي عضو وأسبابه.

33. Minutes of the meetings shall be distributed to the parties concerned within a period not exceeding fifteen (15) days. The person or entity responsible for implementing the resolutions taken shall be determined. The Board should, at the beginning of each year, set a specific timetable for receiving reports from the committees concerned and internal and external auditors, and shall ensure that the mechanism for the collection, preparation and submission of reports and data is in place and in line with the internal adopted policy. It shall also ensure the preparation of important information and its presentation to the Board on a timely basis.

٣٣. تـــوزع محاضـــر الجلســـات علـــى الأطـــراف المعنيـــة خـــلال فتـــرة لا تزيـــد علـــى خمســـة عشـــر (١٥) يومـــاً، مـــع تحديـــد الشـــخص أو الجهـــة المســـئولة عـــن تنفيـــذ القـــرارات المتخـــذة. وعلـــى المجلـــس بدايـــة كـــل عـــام؛ وضـــع جـــدول زمنـــي محـــدد لتلقـــي التقـــارير مـــن اللجـــان المعنيـــة ومـــن مراقبـــي الحســـابات الـــداخليين والخـــارجيين وأن يتأكـــد مـــن أن آليـــة جمـــع التقـــارير وإعـــدادها وتقـــديمها ســـليمة ومتفقـــة مـــع السياســـة الداخليـــة المعتمـــدة، بمـــا فـــي ذلـــك إعـــداد المعلومـــات المهمة وعرضها على المجلس في أوقاتها المحددة.

<u>Principle 3:</u>

<u>Board Responsibilities:</u>

The Board shall oversee the business of the bank, including approving and overseeing the implementation of the bank's strategic objectives, and approving risk strategy, corporate governance rules and principles of professional conduct. The Board is also responsible for supervision of senior management. Members of the Board shall carry out the tasks and responsibilities entrusted to them by ensuring that adequate policies and procedures for supervision and control of the bank's performance are in place.

34. Every bank shall have an effective Board to be responsible for the success of the bank. The Board's role is to achieve the strategic objectives of the bank and to ensure the existence of a general framework of oversight control systems through which risks can be assessed and managed. It should also develop a robust corporate governance rules and approve and supervise the application by the bank of professional values and principles including the application of the Code of Professional Conduct.

35. The Board of Directors is ultimately responsible for the management of the bank's affairs, including approving and overseeing the implementation of the bank's strategic goals, approving risk strategy and monitoring the implementation of corporate governance rules. The Board is also responsible for dissemination of best professional values and conduct and providing oversight over senior management and monitoring its performance.

36. The Board should ensure the soundness and solvency of the bank and maintain effective relationships with supervisory and regulatory authorities. The Board members should also study and understand relevant regulations and legislation related to the banking sector at the top of which is the Banking Control Law. They should also know SAMA's Requirements for Appointments to Senior Positions in Financial Institutions Supervised by SAMA, and the Explanatory Memorandum of the Powers and Responsibilities of Board members, in addition to other SAMA rules and regulations as well as rules and instructions issued by other related entities.

<u>المبدأ الثالث:</u>

<u>مسئوليات مجلس الإدارة:</u>

على مجلس الإدارة الإشراف على عمل البنك، بما في ذلك الموافقة على الأهداف الإستراتيجية للبنك والإشراف على تنفيذها ، والموافقة على إستراتيجية المخاطر وتعليمات الحوكمة ومبادئ السلوك المهنية، إضافة إلى الإشراف على الإدارة العليا. وينبغي على أعضاء مجلس الإدارة القيام بالمهام والمسئوليات الموكلة إليهم من خلال توافر سياسات وإجراءات مناسبة للإشراف والرقابة على أداء البنك.

٣٤. ينبغي أن يكون لكل بنك مجلس إدارة فعال يكون مسئولاً عن نجاح البنك، ويتمثل دور المجلس في تحقيق الأهداف الإستراتيجية والتأكد من وجود إطار عام للأنظمة الرقابية يتم من خلالها تقييم وإدارة المخاطر وإيجاد تعليمات شاملة للحوكمة، والموافقة والإشراف على تطبيق البنك القيم والمبادئ المهنية، بما في ذلك تطبيق قواعد السلوك المهني.

٣٥. تقع المسئولية النهائية على مجلس الإدارة في إدارة شئون البنك، بما في ذلك الموافقة على أهداف البنك الإستراتيجية والإشراف على تنفيذها، والموافقة على إستراتيجية المخاطر، ومتابعة تنفيذ تعليمات الحوكمة ونشر أفضل القيم والسلوك المهنية داخل البنك، وكذلك الإشراف على الإدارة العليا ومتابعة أدائها.

٣٦. على المجلس التأكد من سلامة البنك وملاءته المالية، والمحافظة على علاقات فعالة مع السلطات الإشرافية والرقابية. وعلى أعضاء المجلس دراسة وفهم الأنظمة والتشريعات ذات العلاقة بالنظام المصرفي ومن أهمها نظام مراقبة البنوك، كما يجب عليهم معرفة متطلبات التعيين في المناصب القيادية في المؤسسات المالية الخاضعة لإشراف المؤسسة، والمذكرة الإيضاحية لصلاحيات ومسئوليات أعضاء مجلس الإدارة، إضافة إلى الأنظمة والتعليمات الصادرة من أي جهة أخرى ذات علاقة.

37. The Board shall ensure adequacy of human and financial resources to achieve the strategic goals and ensure the implementation of the obligations of the bank to all relevant parties. It should ensure compliance of all employees with established policies and procedures, in addition to their responsibilities to protect depositors' and shareholders' funds.

38. The Board shall select and change (if needed) executives in key positions, and ensure that the bank has an appropriate replacement policy for the replacement by an appropriate alternative with necessary skills eligible for the office.

39. The Board of Directors should promote integrity and professional conduct within the bank. The Board should ensure that the Senior management is following policies which may prevent or limit activities and relationships that might affect the application of the principles of governance. The Board should develop a written policy for settlement of complaints and disputes that might arise between the bank and its stakeholders.

40. The Board should inform SAMA about all punishment or penalty imposed on the bank by any other supervisory, regulatory or judicial authority that is listed in the Fit and Proper forms regarding Requirements for Appointments to Senior Positions in Financial Institutions Supervised by SAMA, within (5) business days from the date of the penalty.

41. Under the direction and supervision of the Board, the senior management shall ensure that the bank's activities are consistent with the business strategy, risk levels and policies approved by the Board, and ensure proper procedures are in place to communicate periodically with the bank's major borrowing customers in order to assess their risks. It is important to take into account the corporate governance frameworks in place at the bank`s clients and companies and institutions before entering into fiduciary relationships with them.

42. The Senior Management consists of a key group of individuals responsible for overseeing the day-to-day management of the bank and they shall be accountable in this respect. These individuals should have the

٣٧. علـى المجلـس ضـمان كفايـة المـوارد البشـرية والمـالية لتحقيـق الأهـداف الإسـتراتيجية وضـمان تنفيـذ التزامـات البنـك لجميـع الأطـراف ذات العلاقـة والتأكـد مـن التـزام المـوظفين بالسياسـات والإجـراءات المعتمـدة، إضـافة إلـى مسـئوليتهم عـن حمايـة أمـوال المودعين والمساهمين.

٣٨. علـى المجلـس اختيـار وتغييـر المـوظفين التنفيـذيين فـي المراكـز الرئيسـة (عنـد الحاجـة)، والتأكـد أن البنـك لديـه سياسـة مناسـبة لإحـلال بـديل مناسـب يكـون مؤهلاً للعمل ويملك المهارات المطلوبة.

٣٩. علـى مجلـس الإدارة تعزيـز مبـادئ النزاهـة والسـلوك المهـني داخـل البنـك. وعلـى المـجلس التأكـد مـن اتـباع الإدارة التنفيذيـة سياسـات تمـنع أو تحـد مـن أي نشـاط أو علاقـة قـد تـؤثر علـى تطبيـق مبـادئ الحوكمـة، وعليـه وضـع سياسـة مكتوبـة لتسـوية الشـكاوي والاعتراضـات التـي قـد تنشـأ بـين البنـك وأصحاب المصالح.

٤٠. علـى المجلـس إحاطـة المؤسسـة بـأي عقوبـات أو جـزاءات مفروضـة علـى البنـك مـن أي جهـة إشـرافية أو تنظيميـة أو قضـائية أخـرى والمنصـوص عليهـا فـي نمـوذج الملاءمـة الخـاص بمتطلبـات التعيـين فـي المناصـب القياديـة فـي المؤسسـات الماليـة الخاضـعة لإشـراف المؤسسـة وذلـك خـلال فتـرة (٥) أيـام عمـل من تاريخ فرض العقوبة.

٤١. على الإدارة العليـا فـي البنـك، بتوجيـه وإشراف مـن المجلـس، التأكـد مـن أن أنشـطة البنـك تتوافـق مـع إسـتراتيجية العمـل ومسـتوى المخـاطر والسياسـات المعتمـدة مـن المجلـس، إضـافة إلـى التأكـد مـن وضـع الإجـراءات الملائمـة للتواصـل الـدوري مـع كبـار عمـلاء البنـك مـن المقترضـين بهـدف تقيـيم مخـاطرهم. ومـن الأهميـة الأخـذ فـي الاعتبـار أطـر الحوكمـة المتبعـة لـدى عمـلاء البنـك مـن الشـركات والمؤسسات قبل الدخول معهم في علاقات ائتمانية.

٤٢. تتـألف الإدارة العليـا مـن مجموعـة رئيسـة مـن الأفـراد مسـئوليتهم الإشـراف علـى متابعـة وإدارة العمـل اليـومي للبنـك. وينبغـي أن يكونـوا عرضـة للمسـاءلة فـي هـذا الشـأن وأن يكـون لـديهم الخبـرة المطلوبـة

necessary experience, competence and integrity to manage the business under the Board's supervision The Board shall have appropriate controls applicable to these individuals.

والكفاءة والنزاهة لإدارة العمل، تحت إشراف المجلس، إضافة إلى أهمية أن يكون لدى المجلس ضوابط رقابية مناسبة على هؤلاء الأشخاص.

43. The Senior Management of the bank shall submit to the Board an annual report regarding the scope of internal control system and its implementation in order to permit the Board to review and ensure the effectiveness of the system.

٤٣. على الإدارة العليا في البنك رفع تقرير بصفة سنوية للمجلس بشأن نطاق نظام الرقابة الداخلية وتطبيقه حتى تتاح للمجلس فرصة مراجعة النظام والتأكد من فاعليته.

44. The Bank shall have a Risk Management Function (Including a Chief Risk Officer "CRO"), a Compliance Function and an Internal Audit function. The heads of these functions should have sufficient powers, independence, resources and access to the Board. The Board shall approve the overall risk policy and risk management procedures and ensure they are applied and reviewed on an annual basis. The risk appetite that the bank is willing to accept over a specified time horizon should be clearly connected to its overall business strategy and capital plan.

٤٤. ينبغي أن يكون لدى البنك إدارة للمخاطر تشمل مسئولاً رئيساً (مديراً) للمخاطر "CRO" وإدارة للالتزام إضافة إلى إدارة المراجعة الداخلية. وينبغي منحهم السلطة، والاستقلالية، والموارد المناسبة، وأن يكون لديهم القدرة للتواصل مع المجلس. وعلى المجلس اعتماد السياسة العامة للمخاطر وإجراءات إدارة المخاطر والتأكد من تطبيقها ومراجعتها بشكل سنوي، وربط مستوى المخاطر التي يرغب البنك تحملها في فترة زمنية محددة بالإستراتيجية العامة لعمل البنك وخطة رأس المال.

45. The CRO shall report directly to the general manager (CEO) and should be given appropriate powers and should have access to the Board through submission of reports and the CRO should be independent from the business management. If the CRO is removed from his position for any reason or his resignation is accepted, this should be done with the prior approval of the Board. The bank should notify SAMA in writing.

٤٥. ينبغي منح السلطات المناسبة لمدير المخاطر وأن يكون لديه ارتباط بالمجلس من خلال رفع التقارير وارتباط مباشر بالمدير العام (العضو المنتدب)، وأن يكون مدير المخاطر مستقلاً عن جهة إدارة الأعمال، وفي حال تم الاستغناء أو استقالة مدير المخاطر لأي سبب كان، فلا بد من الحصول أولا على موافقة المجلس، وإشعار المؤسسة كتابياً بذلك.

46. The Board shall ensure the independence of internal and external auditors; and ensure compliance with the requirements of disclosure and transparency with regard to reports and financial information and shall ensure their timely disclosure without delay.

٤٦. على المجلس التأكد من استقلالية المراجع الداخلي والمراجع الخارجي، والتأكد من الالتزام بمتطلبات الإفصاح والشفافية بشأن التقارير والمعلومات المالية والكشف عنها دون تأخير.

47. The Board and senior management shall set rules for maintaining confidentiality of information and for transfer of information between different departments and units in the bank.

٤٧. على المجلس والإدارة العليا وضع ضوابط للحفاظ على سرية المعلومات والبيانات وانتقالها بين مختلف الإدارات والوحدات في البنك.

48. The responsibility for the governance of Information Technology rests with the Board of Directors and senior management. It is worth mentioning here that cases of

٤٨. تقع مسئولية حوكمة تقنية المعلومات على عاتق مجلس الإدارة والإدارة التنفيذية. ومن المناسب الإشارة هنا إلى أن حالات الاحتيال والتلاعب

fraud and manipulation are usually connected with negligence in the performance of risk management, information Security Technology, protection of customer data and deficiencies in ways to combat fraud.

ترتبط عادةً بقصور في أداء إدارة المخاطر وتقنية أمن المعلومات وحماية بيانات العملاء وملاءمة أساليب مكافحة الاحتيال.

49. The Board shall have in a place a formal written Policy for Conflicts of Interests. The Board should ensure that policies to identify potential conflicts of interests are existent and implemented.

٤٩. ينبغي أن يكون لدى المجلس سياسة مكتوبة بشأن تعارض المصالح، وعليه التأكد من أن السياسات التي تساعد في كشف العمليات المحتملة لتضارب المصالح موجودة ومطبقة.

50. Conflicts of interests may arise when a bank is part of a general group. For example, where the bank is part of a banking group, the levels of communication and information flows between the bank, its parent company and/or other subsidiaries can lead to conflicts of interests (e.g. sharing of confidential information between different entities).

٥٠. يمكن أن تنشأ عمليات تضارب المصالح في حال كون البنك تابعاً لمجموعة عامة. مثال ذلك، عندما يكون البنك جزءاً من مجموعة مصرفية، فإن مستويات الاتصال وتدفق المعلومات بين البنك والشركة الأم أو الشركات الأخرى التابعة يمكن أن يؤدي إلى تضارب في المصالح (مثل تبادل معلومات سرية بين الكيانات المختلفة للمجموعة).

51. The Board shall develop a Policy to regulate and identify Related Party transactions for identifying, monitoring and enumerating approved and unapproved transactions.

٥١. على المجلس وضع سياسة تنظم وتحدد معاملات الأطراف ذات العلاقة بحيث تتم معرفة ورصد وحصر التعاملات والعمليات الموافق عليها والعمليات غير الموافق عليها.

52. The Board shall ensure that related party transactions are carried out fairly and without preference had an "arm's length basis" and are disclosed to SAMA promptly and adequately within two business days.

٥٢. على المجلس التأكد من أن أي عملية جوهرية مصرفية أو غير مصرفية مع طرف ذي علاقة تتم بكل عدل وبدون تفضيل، والإفصاح عنها للمؤسسة بشكل فوري وسليم خلال موعد أقصاه يومي عمل.

53. The Board of the Parent Company should be aware of the material risks that might affect both the group as a whole and its subsidiaries. It should, therefore, exercise adequate oversight over subsidiaries, bearing in mind legal independence and governance requirements enforced by the supervisory authority on a subsidiary's Board.

٥٣. على مجلس إدارة الشركة الرئيسة الإلمام بالمخاطر الأساسية التي يمكن أن تؤثر على المجموعة جميعها وعلى الشركات التابعة. وعلى المجلس ممارسة دور رقابي مناسب على هذه الشركات، مع أهمية الأخذ في الإعتبار الاستقلالية القانونية ومتطلبات مهام الحوكمة التي يمكن تطبيقها من الجهة المشرفة على مجلس إدارة الشركة التابعة.

54. The Board and Senior management should understand and guide the financial and non-financial structures of the group and its subsidiaries and should have a suitable mechanism to obtain updated information on the structure of the group.

٥٤. ينبغي على أعضاء المجلس والإدارة العليا فهم وتوجيه الهياكل المالية وغير المالية للمجموعة وشركاتها التابعة وأن تتوافر آلية مناسبة للحصول على المعلومات المحدثة بشأن هيكلة المجموعة.

55. The Board of a banking subsidiary shall set related corporate governance rules and should evaluate any group-level decisions or practices to ensure that they

٥٥. على مجلس إدارة الشركة التابعة إعداد تعليمات خاصة بالحوكمة وتقييم أي قرارات أو ممارسات على مستوى المجموعة للتأكد من أنها لا تضع

do not put the subsidiary in breach of applicable local regulations.

56. Where a bank outsources key functions, this shall not exempt the Board of Directors and senior management from responsibility. Their responsibility shall remain existent and cannot be delegated to the entities providing the outsourced services. Outsourcing some functions of the Internal Audit Department, Compliance Department, Risk Management Department and other departments to the parent company (group), shall not relieve the Board of the responsibility of supervision and follow up. The Board should be aware of the risks arising from outsourcing. It shall ensure that outsourcing arrangements are being conducted according to SAMA's related instructions.

57. The bank should prepare programs related to social responsibility to be approved by the Ordinary General Assembly. The goals of these programs include supporting various social projects and work to increase the level of awareness and guidance, as well as to meet the credit needs of the local economy through granting of loans and facilities to productive businesses that promote economic growth and ongoing prosperity. This is without compromising on the solvency of the bank, and the interest of its depositors and shareholders.

58. The bank should provide banking services that meet the needs and requirements of the society at fair cost, and take the initiative to support and promote small and medium enterprises, especially businesses aiming at employment and training of nationals and upgrading their skills, as well as following social policies conducive to environmental protection, health and education.

الفرع التابع في حال تؤدي إلى مخالفة الأنظمة المحلية المطبقة.

٥٦. في حال إسناد عمليات البنك لطرف آخر فان ذلك لا يعفي مجلس الإدارة والإدارة التنفيذية من المسئولية، وتظل مسئوليتهم قائمة ولا يمكن تفويضها لمقدم الخدمة. ولا يؤدي إسناد بعض وظائف عمليات إدارة المراجعة الداخلية وإدارة الالتزام وإدارة المخاطر، والإدارات الأخرى إلى الشركة الأم (المجموعة) إلى إعفاء مسئولية مجلس الإدارة من الإشراف والمتابعة والمسئولية، وعليه إدراك المخاطر المترتبة على عملية الإسناد لطرف آخر، والتأكد من خضوع عمليات الإسناد إلى تعليمات المؤسسة بهذا الشأن.

٥٧. يلتزم البنك إعداد برامج تتناول المسئولية الاجتماعية توافق عليها الجمعية العامة العادية. ومن أهداف هذه البرامج: دعم المشاريع الاجتماعية المختلفة والعمل على زيادة الوعي، إضافة إلى تلبية الاحتياجات الائتمانية للاقتصاد المحلي من خلال منح القروض والتسهيلات للأعمال المنتجة التي تشجع التنمية الاقتصادية دون إضرار بملاءة البنك المالية ومودعيه ومساهميه.

٥٨. على البنك تقديم الخدمات المصرفية التي تلبي احتياجات ومتطلبات المجتمع بتكاليف عادلة، والمبادرة بتقديم تسهيلات لدعم وتشجيع المشاريع الصغيرة والمتوسطة، ولا سيما المشاريع التي تهتم بتوظيف وتدريب المواطنين ورفع مستوى مهارتهم، إضافة إلى إتباع سياسات اجتماعية مناسبة في مجال حماية البيئة والصحة والتعليم.

Principle 4:

Board Committees

The Board of Directors shall set up an appropriate number of committees according to the bank's size and its activities, in order to enable the Board to perform its duties in an effective manner and obtain opinions and advice from specialists in these committees.

59. The use of committees of the Board aims to enhance independent opinion on issues where there is potential conflict of interest, and assist in providing advice in various areas such as audit, risk management, election of Board members, and remunerations and compensations of executives, bearing in mind that the use of these committees does not absolve the Board from its responsibilities.

60. The nature of operations and the size of the bank as well as the relative expertise and qualifications of its Board members play a key role in determining the number of committees to be created. The establishment of such committees usually improves the effectiveness of the Board by concentrating on the skills of members with expertise in some specific activities and operations.

61. The Board of Directors shall be responsible for overseeing the application of Corporate Governance guidance and the committees work and should ensure that the members of the committees are carrying out their duties.

62. The Board shall approve the mandate of all committees of the Board. Each committee should have general procedures specifying its functions, its duration, scope of its work, its powers and duties, and the mechanism through which the Board monitors its activities. The bank should disclose in its annual report on the working of the Board committees formed, the scope of their work, and names of their members (including independent members). The Chairman of the Board shall provide SAMA with a list of all Committees of the Board, their duties and work procedures as well as their members' names.

المبدأ الرابع:

اللجان المنبثقة عن المجلس:

لكي يتمكن المجلس من تأدية مهامه بشكل فعال والحصول على الرأي والمشورة من المختصين في هذه اللجان، فإن عليه تشكيل عدد مناسب من اللجان حسب حجم البنك وتنوع أنشطته.

٥٩. يهدف استخدام لجان المجلس إلى تعزيز إبداء رأي مستقل بشأن المسائل التي من الممكن أن يكون فيها تضارب للمصالح، والمساعدة في تقديم الرأي في مجالات عدة، مثل مراجعة الحسابات وإدارة المخاطر وانتخاب أعضاء مجلس الإدارة وتعويضات ومكافآت التنفيذيين، مع التأكيد على أن الاستعانة بهذه اللجان لا يعفي المجلس من مسئولياته.

٦٠. تحدد طبيعة العمليات وحجم البنك إضافة إلى الخبرة النسبية ومؤهلات أعضاء المجلس عدد اللجان التي تكوّن. ويؤدي تكوين اللجان إلى زيادة فعالية المجلس من خلال التركيز على المهارات الخاصة للأعضاء ذوي الخبرة في بعض الأنشطة والعمليات المحددة.

٦١. يكون مجلس الإدارة مسئولاً عن الإشراف على تطبيق تعليمات الحوكمة وعلى عمل اللجان المنبثقة منه، وعليه التأكد من أن أعضاء اللجان يقومون بالعمل الجاد عند أداء عملهم المطلوب.

٦٢. ينبغي على مجلس الإدارة إقرار قواعد عمل اللجان المنبثقة من المجلس جميعها وأن يكون لدى كل لجنة من هذه اللجان إجراءات عامة تحدد مهام اللجنة ومدة ونطاق عملها والصلاحيات الممنوحة لها والمسئوليات الملقاة على عاتقها وآلية رقابة المجلس عليها. وينبغي أن يتم الإفصاح في التقرير السنوي للبنك عن اللجان التي كونها المجلس وآلية عملها ونطاقه إضافة إلى أسماء أعضاء كل لجنة، بمن في ذلك الأعضاء المستقلون. وعلى رئيس المجلس تزويد المؤسسة بقائمة تشمل جميع اللجان التابعة لعمل المجلس، ومهامها وإجراءات عملها وأسماء أعضائها.

63. Among the special committees that the Board must establish are:

٦٣. من اللجان المتخصصة التي ينبغي على المجلس تكوينها، اللجان الآتية:

Audit Committee (AC):

لجنة المراجعة:

64. An Audit Committee is one of the most important committees of the Board of Directors. It is responsible for ensuring compliance with rules and overseeing the bank's transactions, and it should ensure that a control system is in place and the financial data reported are accurate and fair. The Audit committee members should be non – executive members from inside and outside the Board according to SAMA's Rules governing Audit Committees of banks operating in the Kingdom.

٦٤. تعد لجنة المراجعة أحد أهم اللجان المنبثقة عن مجلس الإدارة. وهي المسئولة عن ضمان الالتزام بالأنظمة والإشراف على عمليات البنك والتأكد من توافر نظام رقابي ومن دقة وعدالة البيانات المالية المعلنة. وينبغي أن يكون أعضاء اللجنة أعضاءً غير تنفيذيين من داخل وخارج المجلس وفق تعليمات المؤسسة المتعلقة بقواعد تنظيم لجان المراجعة في البنوك العاملة بالمملكة.

65. The Audit Committee's main responsibilities include: monitoring and reviewing the effectiveness of the internal audit activities, making recommendations to the Board on the appointment, reappointment and changing of the external auditors and ensuring their independence, studying accounting policies and reviewing the external auditors' plan related to financial statements, safeguarding the bank's assets, reviewing related parties' transactions and ensuring that such transactions are recorded and disclosed appropriately.

٦٥. تتضمن المسئوليات الرئيسة للجنة المراجعة، رصد واستعراض فعالية أنشطة المراجعة الداخلية، وتقديم التوصية للمجلس بشأن التعيين وإعادة التعيين وتغيير المراجع الخارجي وضمان استقلاليته ودراسة السياسات المحاسبية ومراجعة خطة المحاسب القانوني بشأن القوائم المالية وحماية موجودات البنك، ومراجعة عمليات الأطراف ذات العلاقة وضمان تسجيلها والإفصاح عنها بشكل سليم.

66. The Chairman and Members of the Audit Committee shall be appointed by the Board for a period of three years, renewable for a maximum of two additional terms. The Committee shall comprise at least three non - executive Directors. The committee members from outside the Board shall be more than those from inside the Board. The member shall not be from the bank's staff, customers, agents, or advisors. Furthermore, a member of the audit committee should not have availed any financing facilities (credit card, credit facility, guarantees...etc) from the bank in his own name or in concert with his family members (first-degree) of more than 300,000 SAR. In addition, the members should not have a business relationship with any other members of the Board or senior management.

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٦٦. يُعين المجلس رئيس وأعضاء لجنة المراجعة لمدة ثلاث سنوات، قابلة للتجديد لفترتين إضافيتين كحد أقصى. وتتألف اللجنة من ثلاثة أعضاء على الأقل جميعهم من الأعضاء غير التنفيذيين. وينبغي أن يكون أعضاء اللجنة من خارج المجلس أكثر من الأعضاء من داخل المجلس، وأن لا يكون الأعضاء من موظفي البنك أو من عملائه أو وكلائه أو مستشاريه. كذلك ينبغي أن لا يكون لأعضاء لجنة المراجعة أي علاقة ائتمانية مع البنك (بطاقات ائتمانية، تسهيل ائتماني، ضمانات....إلخ) باسمه أو باسم أحد أقاربه من الدرجة الأولى تزيد عن مبلغ ٣٠٠ ألف ريال، وبأي صفة مع البنك أو مجلس إدارته أو موظفيه التنفيذيين.

67. The members of the committee should have academic qualifications, professional experience in auditing and risk management, relevant knowledge of accounting standards, and the capacity to read

٦٧. ينبغي أن يكون لدى أعضاء اللجنة مؤهلات علمية وخبرات مهنية في مراجعة الحسابات وإدارة المخاطر، بما في ذلك معرفة المعايير المحاسبية والقدرة على قراءة التقارير المالية، وفهم الأنظمة

financial reports and understand related rules and regulations issued by competent entities.

68. The board shall determine the committee's work, ensure its independence and set forth its agenda. Chairman of the Committee should be independent from the executive management and major shareholders of the bank. This can be achieved by meeting the following:
    a) Non-appointment of the Chairman of the Board as Chairman of the Audit Committee.
    b) The Chairman of the Audit Committee should not be related to other members of the Board or have any financial or business relationship with any members of the Board.
    c) The Chairman of the audit committee should not have a relationship with executive directors or key executives of the bank that could affect his independence.

69. The number of the committee's meetings shall depend on the size and nature of the bank and the scope of the committee's activities. However, SAMA requires the committee to meet as often as the business requires, and not less than four (4) times a year (in addition to other meetings with the external auditors).

70. The attendance of the members of the Committee's meetings is important for their membership to continue. At least, 50% of the members should be present for the meeting to be valid. All significant decisions will be made on the basis of a majority vote. In the case of equal voting, the Chairman shall have a casting vote; the opinion of the other party must be recorded in the minutes of the meeting. No voting by proxy shall be permitted.

71. Any of the bank's_employee may be invited to attend the Committee's meetings to discuss with him/her the issues raised. This includes the CEO (Chief Executive Officer, General Manager) and internal and external auditors. The minutes of the proceedings of the Audit Committee will be circulated to all members of the Board who have the right to request a clarification for any issue from the committee.

والقواعد واللوائح الصادرة من الجهات ذات العلاقة.

٦٨. علـى مجلس الإدارة تحديد عمل اللجنة والتأكد من استقلالية عملها ووضع جدول أعمالها والمواضيع المطروحة عليها. ويجب أن يكون رئيس اللجنة مستقلاً عن الإدارة التنفيذية وعن كبار المساهمين في البنك، ويتحقق ذلك من خلال توافر الآتي:

أ. عدم تعيين رئيس مجلس الإدارة رئيساً للجنة المراجعة.

ب. عدم وجود قرابة أو علاقة مالية أو تجارية بين رئيس اللجنة وبين أي عضو من أعضاء مجلس الإدارة.

ج. أن لا يكون لرئيس اللجنة علاقة بالمديرين التنفيذيين أو المسئولين القياديين بالبنك تؤثر على استقلاليته.

٦٩. يعتمد عدد اجتماعات اللجنة على حجم البنك ونطاق الأنشطة التي تكلف بها اللجنة، وتشترط المؤسسة أن تكون اجتماعات اللجنة عند الحاجة إلى ذلك، على أن لا تقل عن أربعة اجتماعات في السنة (إضافة إلى أي اجتماعات أخرى قد تعقدها اللجنة مع مراقبي الحسابات الخارجيين).

٧٠. يعد حضور أعضاء اللجنة اجتماعاتها ضرورياً لاستمرار عضوية اللجنة ويلزم حضور ٥٠% من الأعضاء كي يكون الاجتماع صحيحاً. وتتخذ جميع القرارات المؤثرة بناءً على تصويت الأعضاء والأخذ بمبدأ الأغلبية، وفي حال تعادل الأصوات يكون الصوت المرجح في هذه الحالة صوت رئيس اللجنة ويسجل رأي الطرف الآخر في محضر الاجتماع، مع التأكيد على أن التصويت بالوكالة غير مسموح به.

٧١. يمكن دعوة أي موظف لإجتماعات اللجنة ومناقشته في المواضيع المطروحة، بما في ذلك دعوة عضو مجلس الإدارة المنتدب (الرئيس التنفيذي، المدير العام) ومراجعي الحسابات الداخليين والخارجيين، وتوزع محاضر اجتماعات لجنة المراجعة على جميع أعضاء مجلس الإدارة الذين يحق لهم طلب إيضاح أي مواضيع من اللجنة.

Nomination and Compensation Committee NCC:

72. The Nomination and Compensation committee shall be concerned with identifying and recommending of nominees for selection as executive and non-executive Directors, determining an incentives system and approving of compensation according to SAMA's related instructions. The Board shall appoint a minimum of three members to work in the committee, two of these must be independent members. The Chairman of the Board can not chair this committee. As a minimum, the Committee should meet twice a year to assess and evaluate members performance, nominate new candidates, and discuss the compensation and incentives policy.

73. The committee shall coordinate with the Human Resources Department to develop a replacement policy and ensure the compliance of the senior management with such policy.

74. The committee shall develop a record including information on the Board members' qualifications and skills to identify additional required skills to activate the Board's roles to conduct its functions and responsibilities.

75. The Committee shall ensure that the amount of compensations is consistent with the prevailing domestic practices and supervisory regulations, and aligned the interests of depositors, shareholders and the bank's long-term strategic objectives. The Committee shall ensure that the incentives system is periodically reviewed and does not encourage participation in high risk transactions to achieve short-term profits and it complies with the bank's risk policy approved by the Board.

76. The mechanism for setting Directors' compensations should be disclosed in the annual report of the bank in accordance with SAMA's related instructions. The remuneration for Directors should be disclosed. For Executive Directors, the remuneration should be classified and broken down by items such as: basic salary, allowance, reward, bonuses, remuneration, and share-ownership options.

لجنة الترشيح والمكافآت:

٧٢. تكون لجنة الترشيح والمكافآت معنية بالبحث واقتراح مرشحين لاختيارهم أعضاء تنفيذيين وغير تنفيذيين وتحديد نظام حوافز واعتماد المكافآت وفق تعليمات المؤسسة بهذا الشأن، وعلى مجلس الإدارة تعيين ثلاثة أعضاء للعمل باللجنة حداً أدنى، على أن يكون من ضمن الأعضاء المعينين عضوان مستقلان. ولا يمكن أن يرأس هذه اللجنة رئيس مجلس الإدارة، ولا تقل اجتماعاتها عن اجتماعين في العام الواحد يتم خلالها دراسة أداء الأعضاء وتقييمهم وترشيح أعضاء جدد ومناقشة سياسة المكافآت والحوافز.

٧٣. على اللجنة التنسيق مع إدارة الموارد البشرية لتطوير سياسة الإحلال والتأكد من الالتزام بها من الإدارة التنفيذية.

٧٤. على اللجنة وضع سجل يحتوي على معلومات عن مؤهلات ومهارات أعضاء المجلس بهدف التعرف على المهارات الإضافية المطلوبة لتفعيل دور المجلس وقيامه بمهامه ومسئولياته.

٧٥. على اللجنة التأكد من أن حجم المكافآت يتفق مع الأعراف السائدة المحلية والأنظمة الرقابية، ومرتبط بتحقيق مصالح المودعين والمساهمين وتحقيق أهداف البنك الإستراتيجية طويلة المدى. والتأكد من أن نظام الحوافز يتم مراجعته دورياً ولا يشجع المشاركة في عمليات ذات مخاطر عالية لتحقيق أرباح قصيرة المدى ويتفق مع سياسة مخاطر البنك المعتمدة من المجلس.

٧٦. ينبغي الإفصاح في التقرير السنوي للبنك عن آلية تحديد مكافآت الأعضاء حسب ما جاء في تعليمات المؤسسة بهذا الشأن، مع إيضاح آلية تحديد مكافآت الأعضاء التنفيذيين وكذلك مكافآت الأعضاء غير التنفيذيين (مفصلة حسب كل بند مثل مبلغ الراتب، المكافآت، العلاوات، وخيارات تملك الأسهم).

Executive Committee:

77. The Executive Committee usually comprises five Directors (executives and non-executives). It may be chaired by the Chief Executive Officer (General Manager). The powers and responsibilities of the Executive Committee shall be specified and determined by the Board which is responsible for following up its performance. The Board shall specify by a resolution its terms of reference and define the terms and conditions of its work as well as the topics in which the committee shall take part. The Committee shall meet no less than six times a year. It can be summoned at any time if the need arises. The Chief Risk Officer may be invited to attend the Executive Committee meetings with no right to vote. The Chairman of the committee shall report to the Board on any major issue. He/she shall determine, after consultation with the Chairman of the Board, the items that shall be included in the Agenda of the Board meetings.

78. The Board is also required to constitute a Board Risk Management Committee headed by a non-executive director to assist the Board in overseeing the credit risk management process and to discharge such other related responsibilities as may be assigned to it by the Board as per SAMA circular #341000036442 dated 02/02/2013. The CRO will not be a member of the Board Risk Management Committee but maybe invited to attend its meetings.

79. Depending on the nature of each bank's activities and the size and complexity of its operations, the Board may consider establishing such other committees to monitor and supervise the bank`s operations as may be necessary. These committees may, inter alia, include credit committee, governance committee, human resource committee, etc.

اللجنة التنفيذية:

٧٧. تتألف اللجنة التنفيذية عادةً من خمسة أعضاء (تنفيذيين وغير تنفيذيين)، ويمكن أن يرأسها الرئيس التنفيذي (المدير العام) في البنك. ويحدد مجلس الإدارة صلاحيات ومسئوليات اللجنة ويكون مسئولاً عن متابعة تنفيذ الصلاحيات ويحدد المجلس بقرار منه اختصاصات هذه اللجنة وأحكام عملها وشروطه والمواضيع التي ينبغي إشراك اللجنة فيها، على أن لا يقل عدد اجتماعاتها عن ستة اجتماعات في السنة، مع الإشارة إلى أنه يمكن دعوتها للاجتماع في أي وقت إذا اقتضت الحاجة ذلك. ويجوز دعوة مدير المخاطر لحضور اجتماعات اللجنة دون الحصول على حق التصويت على القرارات. وعلى رئيس اللجنة تقديم تقرير للمجلس بشأن أي قضية هامة، ويحدد بعد التشاور مع رئيس المجلس البنود التي ينبغي إدراجها على جدول أعمال المجلس، إضافةً إلى أي مواضيع لا تكون من اختصاص لجان أخرى.

٧٨. يجب على المجلس أن يشكل لجنة لإدارة المخاطر تابعة لمجلس الإدارة برئاسة رئيس غير تنفيذي لمساعدة المجلس في الإشراف على عملية إدارة مخاطر الائتمان والوفاء بالمسؤوليات الأخرى ذات العلاقة التي قد يوكل بها من قبل المجلس، وفقاً لتعميم المؤسسة رقم ٣٤١٠٠٠٠٣٦٤٤٢ وتاريخ ٢٠١٣/٢/٢م، ويمكن دعوة رئيس إدارة المخاطر لحضور الاجتماعات دون أن يكون عضواً بها.

٧٩. ينبغي لمجلس الإدارة حسب أنشطة كل بنك وحجم ونوعية الأصول التي يملكها بحث إنشاء لجان أخرى تابعة لمتابعة ومراقبة مختلف عمليات البنك. من ضمن هذه اللجان الموصى بتكوينها لجنة الائتمان ولجنة الحوكمة ولجنة الموارد البشرية.

Principle 5:

المبدأ الخامس:

The Rights of Shareholders:

The corporate governance principles followed should protect and facilitate the exercise of shareholders' rights, contribute to providing effective channels for communication with shareholders and ensure the equitable treatment of all shareholders, including minority holdings, encourage greater shareholder participation at the meetings of the Ordinary General Assembly, and present proposals relating to the bank's performance and enhance the development of its operations.

حقوق المساهمين:

ينبغي التأكد من أن مبادئ الحوكمة المتبعة تحمي حقوق المساهمين وتسهل ممارسة حقوقهم، وتساهم في توفير قنوات اتصال فعالة ووسائل متنوعة للتواصل مع جميع مساهمي البنك، والتأكد من معاملتهم بالعدل، بمن في ذلك المساهمون الأقلية. وكذلك المساعدة على حثهم باستمرار على المشاركة في اجتماعات الجمعية العامة العادية وتقديم المقترحات المتعلقة بأداء البنك وتطوير عملياته.

80. A specific mechanism shall be in place to permit shareholders to exercise their rights and to obtain information on a timely basis. Shareholders' rights include: the right of dividends and the right to participate in deliberations and vote at the meetings of the Ordinary General Assembly and vote in person or by mail (mail, fax…etc) according to related rules and regulations.

٨٠. ينبغي توافر آلية محددة لدى البنك تضمن ممارسة المساهمين حقوقهم وحصولهم على المعلومات المناسبة دون تأخير، وتشمل هذه الحقوق: الحصول على الأرباح وحضور جمعيات المساهمين والاشتراك في مداولاتها والتصويت على قراراتها بالحضور الشخصي أو استخدام البريد أو وسائل التقنية، وفق ما تحدده الأنظمة والتعليمات ذات العلاقة.

81. Basic shareholder rights shall include the following:
   a. Obtain all related information which enables shareholders to exercise their rights in the best manner on a timely and regular basis.
   b. Participate and vote at the General Assembly meetings. The issues that shareholders desire to raise at the meetings shall be taken into consideration.
   c. Discuss matters listed in the General Assembly's agenda and raise queries to the Board members and to the external auditor and to get feedback thereon.
   d. The right to elect the Board members through either accumulative voting (each shareholder has a voting right equivalent to the number of shares he owns. He has the right to use them all for one nominee or to divide them between selected nominees, without duplications) or any other voting method approved by shareholders which serves the interests of different classes of shareholder.

٨١. تشمل حقوق المساهمين الرئيسة، الآتي:
   أ. الحصول على جميع المعلومات ذات العلاقة التي تمكن المساهمين من ممارسة حقوقهم على أكمل وجه بصفة دورية ودون تأخير.
   ب. المشاركة والتصويت في اجتماعات الجمعية العامة على أن يؤخذ في الاعتبار المواضيع التي يرغب المساهمون طرحها في مثل هذه الاجتماعات.
   ج. مناقشة الموضوعات المدرجة على جدول أعمال الجمعية العامة وتوجيه الاستفسارات إلى أعضاء المجلس والمحاسب القانوني، والحصول على إفادة بشأنها.
   د. اختيار اعضاء المجلس بإتباع إما أسلوب التصويت التراكمي (كل مساهم لديه قدرة تصويتية بعدد الأسهم التي يملكها، بحيث يستطيع التصويت فيها لمرشح واحد أو تقسيمها على عدد من المرشحين، دون تكرار) أو أي أسلوب آخر يتم إقراره من قبل المساهمين بما يحقق كافة مصالح المساهمين على اختلاف فئاتهم.

e. The bank shall provide SAMA with a copy of the minutes of the General Assembly meetings within no more than (15) days of the date of the meeting.

82. Shareholders should be furnished with sufficient information on the date, location and agenda of the General Assembly's meetings, within sufficient time before the meeting and in accordance with the regulations and instructions issued by any regulatory and supervisory body.

83. Shareholders have the right to nominate and elect Board members and to enquire about their qualifications, skills and capacity to perform their jobs. They also, have the right to discuss the remunerations and incentives received by Board members and top key executives as well as their right to communicate their enquiries about any unprofessional practices to the Board and get proper feedback.

هـ. على البنك تزويد المؤسسة بنسخة من محاضر اجتماعات الجمعية العامة خلال فترة لا تزيد على (١٥) يوماً من تاريخ انعقادها.

٨٢. ينبغي تزويد المساهمين بمعلومات عن مكان وتاريخ انعقاد الجمعية العامة وجدول أعمالها قبل اجتماعها بوقت كاف وبما يتفق مع الأنظمة والتعليمات الصادرة من الجهات ذات العلاقة.

٨٣. للمساهمين حق ترشيح وانتخاب أعضاء مجلس الإدارة والاستفسار عن مؤهلاتهم وخبراتهم وقدرتهم على أداء عملهم، ومناقشة حجم المكافآت والحوافز المالية التي يتقاضاها أعضاء مجلس الإدارة وكبار الأعضاء التنفيذيين، إضافة إلى حقهم في تقديم أي استفسار إلى المجلس بشأن أي ممارسات غير مهنية والحصول على إفادة بشأنها.

Principle 6:

Disclosure and Transparency:

The disclosure and transparency principle shall be applied on all operations and activities of the bank. The Board shall publish all financial and non-financial information which concerns depositors, shareholders, investors, market dealers; such information shall be provided to regulatory and supervisory entities and other concerned parties.

84. The Board shall provide stakeholders with comprehensive information which could assist them in identifying the future trends and strategic plans of the bank.

85. The bank should disclose the information that concerns depositors, investors and shareholders, through the annual report of the bank, website or via an appropriate channel. Type and nature of information published shall be in line with the size and activities of the bank.

86. Disclosure should include, in all cases, the following matters:
   a. The entities and parties with share ownership in the bank.
   b. The Board of Directors and its committees.
   c. Detailed information of compensations paid to the Chairman and members of the Board of Directors in addition to executives whose appointment requires no-objection by SAMA , without giving their names.
   d. Information on the system of financial compensation and incentive policy.
   e. Internal control framework.
   f. Ethical and professional principles of the banks' staff.
   g. Information on any transaction with related parties and any transaction involving conflict of interest, if any, and the policies governing them.
   h. Plans and strategic trends of the bank, especially prominent developments concerning take-over, merger, or establishment of subsidiaries.
   i. Principles applied by the bank in the area of Corporate Governance.
   j. Bank's credit ratings by international credit rating agencies.

المبدأ السادس:

الإفصاح والشفافية:

ينبغي إتباع مبدأ الإفصاح والشفافية في عمليات وأنشطة البنك جميعها، وعلى المجلس نشر المعلومات المالية وغير المالية التي تهم المودعين والمساهمين والمستثمرين والمتعاملين بالسوق وتزويد الجهات الإشرافية والرقابية والأطراف الأخرى أصحاب المصلحة بها.

٨٤. على المجلس تزويد الأطراف أصحاب المصلحة بمعلومات شاملة تساعد على تحديد توجهات البنك المستقبلية وخططه الإستراتيجية.

٨٥. ينبغي الإفصاح عن المعلومات التي تهم المودعين والمساهمين والمستثمرين، سواء من خلال التقرير السنوي للبنك أو الموقع الالكتروني للبنك، أو أي طريقة أخرى مناسبة. وينبغي أن يكون نوع وطبيعة المعلومات التي تنشر مناسباً لحجم البنك وأنشطته.

٨٦. ينبغي أن تشمل عملية الإفصاح في جميع الأحوال الآتي:
   أ. الجهات والأطراف التي تملك حصة في البنك.
   ب. مجلس إدارة البنك واللجان التابعة له.
   ج. معلومات مفصلة عن حجم المكافآت المالية المدفوعة إلى الرئيس وأعضاء مجلس الإدارة إضافة إلى الموظفين التنفيذيين الذين يتطلب تعيينهم الحصول على عدم ممانعة المؤسسة دون ذكر أسمائهم.
   د. معلومات عن نظام المكافآت المالية وسياسة الحوافز.
   هـ. الإطار العام لأنظمة الرقابة الداخلية.
   و. المبادئ الأخلاقية والأسس المهنية لموظفي البنك.
   ز. معلومات عن أي عملية مع طرف ذي علاقة وأي عملية فيها تضارب للمصالح (إن وجدت) والسياسات المنظمة لها.
   ح. الخطط والتوجهات الإستراتيجية للبنك، ولاسيما أبرز التطورات من تملُّك واندماج وإنشاء شركات تابعة.
   ط. المبادئ التي يطبقها البنك في مجال الحوكمة.
   ي. التصنيفات الائتمانية الممنوحة من وكالات التصنيف الدولية.

(Part Three)

(القسم الثالث)

Guidelines and Instructions Issued by SAMA:

According to charter of the Saudi Arabian Monetary Agency issued by Royal Decree No.23 dated 23-05-1377h and Banking Control law issued by Royal Decree No. m/5 dated 22-02-1386h, SAMA issues regulations, rules,_and guidelines which banks are required to comply with. In this respect, SAMA has recently issued a selection of guidelines and rules directly or indirectly related to corporate governance principles, which the members of the Board, and senior management should be aware of and ensure the bank's compliance with all instructions and guidelines issued by SAMA and other related local or international organizations.

الإرشادات والتعليمات التي أصدرتها المؤسسة:

استناداً إلى نظام مؤسسة النقد العربي السعودي الصادر بالمرسوم الملكي رقم (٢٣) وتاريخ ١٣٧٧/٠٥/٢٣هـ ونظام مراقبة البنوك الصادر بالمرسوم الملكي رقم (م/٥) وتاريخ ١٣٨٦هـ، تصدر المؤسسة قواعد وتعليمات وإرشادات ينبغي على البنوك التقيد والالتزام بها. وأصدرت المؤسسة خلال السنوات القليلة الماضية مجموعة من الإرشادات والتعليمات ذات العلاقة المباشرة أو غير المباشرة بمبادئ الحوكمة. وينبغي على أعضاء مجلس الإدارة والإدارة التنفيذية الإطلاع والتأكد من التزام البنك بجميع التعليمات والإرشادات التي تصدر من المؤسسة والجهات الأخرى ذات العلاقة، سواءً أكانت محلية أم دولية.

Appendix C

Board of Directors in Saudi Arabia

Semi-structure interview

(English version)

Section A- corporate governance and board composition

- What is your understanding of corporate governance
- Do you have a corporate governance code? Why?
- What is the composition of the board?
- How are your board members selected? Has this changed since 2006?
- How are independent NEDs selected and why are they selected this way?
- How many board members do you have in total? Has that changed recently? Is this appropriate for your company?
- How long do directors serve on the board? What experience does each director have? Do you think other companies do the same thing?
- How is the board chairman selected? And why is it done in this way?
- Is the role of Chairmen and CEO separated in your company? Why? Is the separation good or

bad for companies?

- Which board committees do you have? Do other company boards have these committees?
- How are board committee members selected?
- Has your company adopted accumulative voting system? Why?
- Does your audit committee have any members with accounting or finance knowledge? Is this the same in other companies?
- What influences the practices of the audit committee?
- What influences the practices of the remuneration and nomination committee?

Section B- Board Meeting

- How much time do directors spend on board matters? Is this the same or do some board members spend lot more or less time than others on board matters?
- When and how do board meetings take place? Is this adequate?
- Who influences board debates and decisions? Does this also happen in other companies?
- What influences people to become board members?

Section C- institutional influences

- What are the cultural influences on adopting CG practices?
- What are the political influences on adopting CG practices?
- What are the economic influences on adopting CG practices?
- What are the organizational influences on adopting CG practices?
- What are the regulatory influences on adopting CG practices?

Section D- Other

- Do you have any other comments?

Appendix D

Board of Directors in Saudi Arabia

Questionnaire

(English version)

School of Business, University of Dundee, Dundee, DD1 4HN, UK

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1. Please identify the roles that are most applicable to you by ticking the appropriate box :

	Chairman	Executive	NED	Independent NED	Board secretary
Financial sector	☐	☐	☐	☐	☐
Cement - Petrochemicals	☐	☐	☐	☐	☐
Telecom-Media & publishing	☐	☐	☐	☐	☐
Agricultural & food	☐	☐	☐	☐	☐
Energy & utilities & Industrial	☐	☐	☐	☐	☐
Real estate development	☐	☐	☐	☐	☐
Transport- Retail	☐	☐	☐	☐	☐
Services -Hotel and tourism	☐	☐	☐	☐	☐

2. Which board committees does your company have and which ones do you serve on:

	Have	Serve on
Audit	☐	☐
Remuneration and nomination	☐	☐
Sharia	☐	☐
Executive	☐	☐

3. Who has majority control in your company?

-☐ Not applicable -☐Government -☐Family Ownership -☐ Foreign ownership -☐ Other

4. How long have you served on company boards?

-☐ 0- 5 years-☐ 6- 10 years-☐11 – 15 years-☐ Over 15 years

5. Please state your current full time position:

…..

Please indicate the extent to which you agree or disagree with the following statements where:

1 = strongly agree/ 2= Agree/ 3= Neutral/ 4= Disagree / 5= strongly disagree

6. Please indicate the extent to which you agree that the following factors influence the selection of Chairman, NED and Independent NED on your board? (1 = strongly agree. 5= strongly disagree)

	Chairmen					NED					INED				
Factor	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
CG code	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government and Regulatory bodies	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Members of royal family	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Islamic principles	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Personal relationships	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Courtesy to others	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Position in society	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Family ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Top Management	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company size	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company sector	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Experience and Qualification of nominee	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Nominee being on other company boards	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Other															

7- Please indicate the extent to which you agree that the following factors influence the selection of the members of the following board committees:

(1 = strongly agree. 5= strongly disagree)

	Audit					Remuneration and nomination					Executive				
Factor	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
CG code	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government and Regulatory	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Islamic values	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Favoritism	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Personal relationships	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Courtesy to others	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Position in society	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Family ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Top Management	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company size	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company sector	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Experience and Qualification	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
BM being on similar	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Other															

8. To What extent do you agree that the following factors influence; (i) the size of the board; (ii) the adoption of accumulative voting

(1 = strongly agree. 5= strongly disagree)

	Board size					Accumulative voting				
Factor	1	2	3	4	5	1	2	3	4	5
Corporate governance code	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government and Regulatory bodies	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Members of the royal family	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Islamic values	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Personal relationships	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Courtesy to others	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Position in society	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Family ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Top Management	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company size	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company sector	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Experience and Qualification of BM	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
BM being on other company boards	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Other										

9. To what extent do you agree that the following factors influence an individual becoming a board member and also the number of directorships that an individual holds?

(1 = strongly agree. 5= strongly disagree)

	Becoming a board member					Number of directorships				
Factor	1	2	3	4	5	1	2	3	4	5
Corporate governance code	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government and Regulatory bodies	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Economic factors	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Favouritism	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Personal relationships	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Courtesy to others	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Position in society	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Family ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Top Management	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company size	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company sector	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Experience of BM	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Qualification of BM	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Insider dealing by board members	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Other										

10. To what extent do you agree that your board ensures that there are no conflicts of interest that might lead to the misuse of company assets especially in the cases of related transaction with board members? Please tick the relevant box:

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
☐	☐	☐	☐	☐

11. To what extent do the following factors prevent or contributes to your board role when ensuring that there are no conflicts of interest

	Strongly contributes	contributes	Neutral	Prevents	Strongly prevents
Factor	1	2	3	4	5
Corporate governance code	☐	☐	☐	☐	☐
Government and Regulatory bodies	☐	☐	☐	☐	☐
Members of the royal family	☐	☐	☐	☐	☐
Economic Factors	☐	☐	☐	☐	☐
Favouritism	☐	☐	☐	☐	☐
Personal relationships	☐	☐	☐	☐	☐
Courtesy to others	☐	☐	☐	☐	☐
Position in society	☐	☐	☐	☐	☐
Family ownership	☐	☐	☐	☐	☐
Government ownership	☐	☐	☐	☐	☐
Top Management	☐	☐	☐	☐	☐
Company size	☐	☐	☐	☐	☐
Company sector	☐	☐	☐	☐	☐
Experience of BM	☐	☐	☐	☐	☐
Qualification of BM	☐	☐	☐	☐	☐
Board Member being on other company boards	☐	☐	☐	☐	☐
Other					

12. To what extent do the following factors prevent or contributes in the following committee's practices:

1= Strongly assists/ 2= Assists/ 3 =Neutral/ 4= Prevents /5= Strongly prevents

	Audit committee					Remuneration and nomination				
Factor	1	2	3	4	5	1	2	3	4	5
Corporate governance code										
Government and Regulatory bodies										
Economic factors										
Favouritism										
Personal relationships										
Courtesy to others										
Position in society										
Family ownership										
Government ownership										
Top Management										
Company size										
Company sector										
Experience of BM										
Qualification of BM										
BM being on similar committees on										
Other										

13. Do the same factors affect the Audit committee in ensuring the effectiveness of the company's internal control yes no

If no pleas state the difference……………………………………………..

14. Do the same factors affect the Remuneration and nomination committee in evaluating individual board members? Yes no

If no pleas state the difference……………………………………………..

15. To what extent do you agree that the following factors influence when board meetings take place, board decisions and time spent by directors preparing for agenda items

(1 = strongly agree. 5= strongly disagree)

	Board decisions					When board meetings					Time spent by directors				
Factor	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Government and Regulatory	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Economic Factors	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Members of the royal family	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Islamic values	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Favouritism	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Personal relationships	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Courtesy to others	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Position in society	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Family ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Government ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Top Management	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company size	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Company sector	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Insider dealing by board	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Experience of the chairmen	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Other															

16. Please feel free to add any other comments about corporate governance and the board of directors in your company or in Saudi Arabia in general:

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Thank you for your participation in this questionnaire

Please send the questionnaire to this address or in the manner agreed upon

Maree Alamri

Po box 140330 Jeddah 213333

Saudi Arabia

If you would like the results of this study to be sent to you please write your email here:

……………………………………………………………………………………………………

Appendix D

إستمارة إستبيان عن مجالس الإدارات في الشركات السعودية

Board of Directors in Saudi Arabia

Questionnaire

(Arabic version)

مرعي علي العمري

طاب دكتوراة

جامعة دندي

المملكة المتحدة

School of Business, University of Dundee, Dundee, DD1 4HN, UK

Tel: +44 (0) 1382 384193 Fax: 01382388421

بسم الله الرحمن الرحيم

سعادة المكرم

السلام عليكم ورحمة الله وبركاتة

أقوم حاليا بتحضير رسالة الدكتوراة في جامعة دندي , في المملكة المتحدة وذلك عن حوكمة الشركات في المملكة العربية السعودية و دور مجالس الإداره في الشركات المساهمة. وكمتطلب أساسي للدراسة أقوم بمسح إستبياني بغرض التعرف على آراء الأطراف ذات الصلة بمجالس الإدارات حول المواضيع المتعلقه بممارسات مجالس الإدارة في ظل صدور لوائح الحوكمة في المملكة العربية السعودية.

ولعلمي التام بإيمانكم بأهمية دعم وتشجيع البحث العلمي ودوره في تطوير المجتمع فإنني أرجو منكم التكرم بالإجابة على أسئلة الاستبيان وإعادة إرسالة الى العنوان المرفق أو بالطريقة المتفق عليها مع الباحث. كما لا يفوتني التنويه على أهمية إظهار وجهة نظرك في مختلف القضايا المطروحة, حيث أن هدف البحث الفعلى هو معرفة الواقع الفعلى لممارسات مجالس الادارة و مدى تأثير عوامل مختلفة على الممارسات المذكورة. أود الإشارة الى أن جميع المعلومات ستعامل بسرية كاملة ولن تستخدم إلا لأغراض البحث العلمي ولن يتم ذكر أسماء أو مراكز المشتركين في الإستبيان. وفي حال رغبتكم الحصول على نتائج البحث فإنه يسرني إرساله إليكم بالطريقة التي تفضلونها.

أتقدم اليك بالشكر مقدما لتعبئة هذا الاستبيان,,,,,

الباحث

مرعي علي العمري

1. أرجو ان تحدد المناصب التي شغلتها على مجالس الادارات في القطاعات التاليه

	رئيس مجلس ادارة	عضو مجلس تنفيذي	عضو مجلس غير تنفيذي	عضو مجلس غير تنفيذي مستقل	سكرتير المجلس
القطاع المالي و التأمين	□	□	□	□	□
الاسمنت والصناعات البتروكيماويه	□	□	□	□	□
الاتصالات والاعلام والنشر	□	□	□	□	□
الزراعة والصناعات الغذائية	□	□	□	□	□
الاستثمار المتعدد و الصناعي	□	□	□	□	□
التشييد والبناء والتطوير العقاري	□	□	□	□	□
النقل و الفنادق والسياحة	□	□	□	□	□
قطاعات أخرى	□	□	□	□	□

2. أرجو تحديد لجان المجلس التى في شركتكم و اللجان التى أنت عضو بها

	لديكم	انت عضو بها
لجنة المراجعة	□	□
لجنة الترشيحات والمكافاءات	□	□
اللجنه التنفيذيه	□	□
اللجنة الشرعية	□	□

3. اي الفئات التاليه لديها أغلبية التحكم في مجلس إدارتكم:

-□ لا ينطبق -□ الملكية الحكومية -□ الملكية العائلية -□ ملكية الشريك الاجنبي -□ اخرى

4. كم عدد السنوات التي مارستها كعضو مجلس ادارة:

□ اقل من 5 سنوات 6□ - 10 سنوات □ 11 - 15 سنه □ اكثر من 15 سنة

5. ارجو ذكر وظيفتك الحالية

....

أرجو القيام بتحديدالى اي مدى توافق من خلا ل اختيار المربع الأنسب من الخيارات التالية حيث

موافق بشده =1 موافق=2 محايد=3 غيرموافق=4 غير موافق بشدة= 5

6.الى اي مدى توافق على أن العوامل التاليه تؤثر على إختيار كلا من رئيس المجلس والعضو الغير التنفيذي والعضو غير التنفيذي المستقل لمجلس إدارتكم

	رئيس مجلس الادارة					العضو الغير تنفيذي					العضو الغير تنفيذي المستقل				
العوامل المؤثرة	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
لائحة حوكمة الشركات	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الجهات الحكومية و الهيئات التنظيمية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
افراد العائلة الملكية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
المباديء الاسلامية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
العلاقات الشخصية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
المجاملة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
مكانة الشخص الإجتماعية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
حجم الملكية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الادارة التنفيذية العليا	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
حجم الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
قطاع الذي تنتمي إليه الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
خبرة و مؤهلات عضو مجلس الادارة المرشح	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
كون المرشح عضو في مجالس أخرى	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
عوامل اخرى (ارجو ذكرها)															

7.الى اي مدي توافق على أن العوامل التالية تؤثر على إختيار عضو المجلس كعضو في احد اللجان المذكورة

موافق بشده =1 / غير موافق بشدة= 5

	لجنة المراجعة					لجنة الترشيحات والمكافاءات					الجنة التنفيذية				
العوامل المؤثرة	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
لائحة حوكمة الشركات	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
الجهات الحكومية و الهيئات التنظيمية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
المباديء الاسلامية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
المحاباه	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
العلاقات الشخصية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
المجاملة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
مكانة الشخص الإجتماعية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
الملكية العائلية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
الملكية الحكومية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
الإدارة التنفيذية العليا	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
حجم الشركة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
قطاع الذي تنتمي اليه الشركة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
خبرة و مؤهلات عضو مجلس الادارة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
كون العضو في نفس اللجان في مجالس إدارات أخرى	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
عوامل اخرى (ارجو ذكرها)															

8.الى اي مدى توافق على ان العوامل التالية تؤثر على كلا من: حجم المجلس , اعتماد طريقة التصويت التراكمي

, فصل وظيفة الرئيس التنفيذي عن وظيفة رئيس مجلس الادارة: موافق بشده =1 /غير موافق بشدة= 5

	حجم المجلس					تطبيق التصويت التراكمي				
العوامل المؤثرة	1	2	3	4	5	1	2	3	4	5
لائحة حوكمة الشركات	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الجهات الحكومية والهيئات التنظيمية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
العائلة الملكية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
عوامل اقتصادية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الملكية العائلية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الملكية الحكومية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الادارة التنفيذية العليا	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
حجم الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
القطاع الذي تنتمي إليه الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
خبرة عضو مجلس الادارة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
خبرة رئيس مجلس الادارة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
كون عضو المجلس ايضا عضو في مجالس أخرى	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
عوامل أخرى										

9.الى اي مدى توافق على ان العوامل التاليه لها اثر غلى كون الشخص يرغب في ترشيح نفسة كعضو مجلس ادارة

وايضا على عدد عضويات المجلس التي لدى الشخص الواحد: موافق بشده =1 / غير موافق بشدة= 5

	رغبة الشخص ان يصبح عضو مجلس ادارة					عدد عضويات المجلس التى لدى الشخص				
العوامل المؤثرة	1	2	3	4	5	1	2	3	4	5
لائحة حوكمة الشركات	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الجهات الحكومية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
عوامل اقتصادية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
المحاباه	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
العلاقات الشخصية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
المجاملة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
مكانة الشخص الإجتماعية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الملكية العائلية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الملكية الحكومية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الادارة التنفيذية العليا	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
حجم الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
قطاع الذي تنتمي اليه الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
خبرة عضو مجلس الادارة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
مؤهلات عضو مجلس الادارة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
التعاملات الداخلية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
أخرى(ارجو ذكرها)										

10. يجب على مجالس الادارات التأكد من عدم وجود تضارب مصالح بين اعضاء مجلس الإدارة اللذي قد يؤدي الى اساءة استخدام اصول الشركة

الى اي مدى توافق على ان مجلس ادارتكم يقوم بهذا الدور

موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
1	2	3	4	5

11. الى اي مدى تساهم أو تعيق العوامل التالية مجلس ادارتكم في التأكد من عدم وجود تضارب مصالح بين اعضاء مجلس الإدارة اللذي قد يؤدي الى اساءة استخدام اصول الشركة

العوامل المؤثرة	تساهم بشدة	تساهم	محايد	تعيق	تعيق بشدة
لائحة حوكمة الشركات	☐	☐	☐	☐	☐
الجهات الحكومية والتنظيمية	☐	☐	☐	☐	☐
افراد العائلة الملكية	☐	☐	☐	☐	☐
عوامل اقتصادية	☐	☐	☐	☐	☐
المحاباه	☐	☐	☐	☐	☐
العلاقات الشخصية	☐	☐	☐	☐	☐
المجاملة	☐	☐	☐	☐	☐
مكانة الشخص الإجتماعية	☐	☐	☐	☐	☐
الملكية العائلية	☐	☐	☐	☐	☐
الملكية الحكومية	☐	☐	☐	☐	☐
الادارة التنفيذية العليا	☐	☐	☐	☐	☐
حجم الشركة	☐	☐	☐	☐	☐
قطاع الذي تنتمي اليه الشركة	☐	☐	☐	☐	☐
خبرة عضو مجلس الادارة	☐	☐	☐	☐	☐
مؤهلات عضو مجلس الادارة	☐	☐	☐	☐	☐
كون عضو المجلس ايضا عضو في مجالس أخرى	☐	☐	☐	☐	☐
أخرى(ارجو ذكرها)					

12. الى اي مدي تعتقد ان العوامل التالية تساهم او تعيق لجان مجلس الادارة في اداء دورهم:

	لجنة المراجعة					لجنة الترشيحات والمكافاءات				
ألعوامل ألمؤثرة	تساهم بشدة	تساهم	محايد	تعيق	تعيق بشدة	تساهم بشدة	تساهم	محايد	تعيق	تعيق بشدة
لائحة حوكمة الشركات	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الجهات الحكومية و الجهات التنظيمية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
عوامل اقتصادية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
المحاباه	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
العلاقات الشخصية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
المجاملة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
مكانة الشخص الإجتماعية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الملكية العائلية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الملكية الحكومية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
الادارة التنفيذية العليا	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
حجم الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
قطاع الذي تنتمي اليه الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
خبرة عضو اللجنه	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
مؤهلات عضو اللجنة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
كون عضو اللجنه في لجان اخرى مشايهه	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
اخرى الرجاء ذكرها										

هل الخيارات التى اخترتها ايضا توثر على لجنة المراجعة في القيام بتقييم مدى فاعلية وكفاءة نظام الرقابة الداخلي

نعم لا

اذا كان الجواب لا ارجو ذكر المؤثرات الاخرى............................

هل المؤثرات التى اخترتها للجنة الترشيحات ايضا تؤثر على دور اللجنة في تقييم أداء أعضاء مجلس الادارة

نعم لا

اذا كانت اجابتك لا ارجوا ذكر المؤثرات الاخرى..

هل المؤثرات التى اخترتها للجنة الترشيحات ايضا تؤثر على دور هذة اللجنة في التأكد من استقلالية الاعضاء المستقلين

نعم لا

اذا كانت اجابتك لا ارجوا ذكر المؤثرات الاخرى..

14. الى اي مدى توافق على ان العوامل التالية تؤثر على تحديد وقت الاجتماع وايضا على قرارات المجلس والوقت الذي يقضيه العضو إستعدادا للإجتماع

موافق بشده =1 / غير موافق بشدة= 5

	قرارات المجلس					وجت اجتماع المجلس					الوقت الذي يقضية العضو استعدادا للاجتماع				
العوامل المؤثرة	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
الجهات الحكومية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
عوامل اقتصادية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
افراد العائلة الملكية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
المباديء الاسلامية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
المحاباه	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
العلاقات الشخصية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
المجاملة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
مكانة الشخص	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
الملكية العائلية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
الملكية الحكومية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
الادارة التنفيذية العليا	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
حجم الشركة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
قطاع الذي تنتمي اليه	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
اهتمام الاعضاء	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
خبرة رئيس مجلس الادارة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
أخرى(ارجو ذكرها)															

الرجاء إضافة أي تعليق تعتقد ان له إرتباط بممارسات مجالس الإدارات في المملكة العربية السعوديه

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كل الشكر والتقدير على حسن تعاونك

الرجاء التكرم بإعادة ارسال الاستمارة الى العنوان التالي

مرعي علي العمري

ص ب 140330

جدة 213333

أو بالطريقة المتفق عليها مع الباحث

إذا رغبت في الحصول على ملخص نتائج البحث فضلا ضع بريدك الألكتروني هنا